

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 23, 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. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Paulger, Chief of the Division of Examinations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Wingfield, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Baumann, Assistant Counsel

Mr. McKee brought up for discussion the application for membership which had been filed by the Guardian Trust Company of Houston, Houston, Texas. He pointed out that action on this case involved a question of policy due to the fact the bank maintains a real estate department which handles the rental and sale of real estate on a commission basis. He said that for some years following the banking holiday the Board prescribed, when applicable, a condition of membership prohibiting a bank from engaging as a business in the handling of business as a rental or sales agent. He also said that the Division of Examinations, in recommending the approval of the application of the

12/23/40

-2-

Guardian Trust Company of Houston for membership, had recommended in a memorandum dated December 18, 1940, that the past position be modified and that in the future no condition of membership prohibiting a bank from acting as agent in the rental or sale of real estate be prescribed except in unusual cases where the information reflects abuses or unsound practices on the part of the bank, in which case the matter would be handled in the same manner as if the unsound practices were disclosed in the operations of any other department of the bank. Mr. McKee said that the Division of Examinations stated in its memorandum that approval of the recommendation would be consistent with the position taken by the Board in its letter of January 6, 1937, (X-9780 - Loose-Leaf Service #3515) with respect to conditions of membership regarding insurance departments.

There was considerable discussion of the policy involved and a question was raised whether it would be necessary, in the event the recommendations of the Division of Examinations were approved, to notify the Federal Reserve Banks regarding the change in policy so that they in turn might inform banks which had been admitted to membership subject to such a condition in order that all member banks would receive the same treatment. It was explained by Mr. Leonard, however, that there had been only five cases where a condition had been prescribed with respect to activities as real estate agent and that in three of these cases the banks involved had subsequently been converted

12/23/40

-3-

into national banks; in one case the bank had closed out its real estate and insurance departments and sold the business to a new corporation organized to take it over, and in the remaining case the bank operated an abstract department in addition to a real estate department and had never completed its membership.

At the conclusion of the discussion, upon motion by Mr. McKee, the Board approved unanimously the recommendation of the Division of Examinations stated above, as set forth in its memorandum of December 18, 1940.

The Board also approved unanimously the application of the "Guardian Trust Company of Houston", Houston, Texas, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, with the understanding that the letter to the "Guardian Trust Company of Houston" would contain 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 and trust business, such as the power to guarantee stocks, bills of exchange, bonds and mortgages and other securities. Attention is invited to the fact that if the bank desires 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."

It was also understood that the following letter would be sent to Mr. Gilbert, President of the Federal Reserve Bank of Dallas:

12/23/40

-4-

"As you were advised in a telegram dated December 23, 1940, the Board of Governors of the Federal Reserve System has approved the application of the Guardian Trust Company of Houston, Houston, Texas, for membership in the Federal Reserve System, 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 Commissioner of Banking for the State of Texas for his information.

"We understand from Mr. Stroud's letter of December 5, 1940, that you desire advice as to the Board's views concerning the question whether James A. Baker should be considered an employee of the bank for the purposes of the Clayton Act. It appears that Mr. Baker formerly was chairman of the board of directors of the bank but recently resigned his position as director and is not now an officer or director of the bank. However, in order that he may continue to carry life insurance under a group policy, the bank, at the suggestion of the insurance company, pays Mr. Baker an honorarium in the amount of \$1.01 per month. It is understood that Mr. Baker performs no services for the bank and, aside from receiving the honorarium, has no connection with the bank other than as a stockholder. In the circumstances, the Board is of the opinion that Mr. Baker is not an employee of the bank within the meaning of the Clayton Act.

"It has been noted that, in the light of the Board's letter of May 9, 1940, S-218 (Federal Reserve Loose-Leaf Service #3722.1), the bank has been advised that the real estate mortgage loans now deposited with its trust department to secure trust funds deposited by it in its commercial department will not comply with the requirements of standard condition of membership numbered 6 and section 9(b) of Regulation F. Mr. Stroud states that the bank has suggested that it would deposit cash in another Houston bank under a pledge agreement in an amount sufficient to secure that portion of the trust funds now secured by real estate mortgage loans but he expresses doubts as to whether this would comply with the Board's requirements. It is not apparent to the Board how such a plan could result in a pledging of securities coming within any of the three classes approved in section 9(b) of Regulation F and, accordingly, it appears that it will be necessary for the bank to make some other arrangements."

12/23/40

-5-

At this point Messrs. Paulger, Leonard, Wingfield, and Baumann withdrew from the meeting.

At the suggestion of Mr. Szymczak, consideration was given to a memorandum addressed to the Board by Mr. Smead under date of December 21, 1940, relating to requests of the Federal Reserve Banks for authority to pay the regular semiannual dividend at the end of 1940, to make certain additions to reserves of estimated losses on industrial advances, to set up special reserves for depreciation on Bank buildings and to make other charge-offs, and to transfer amounts from surplus to reserves for contingencies.

Mr. Smead outlined in a general way what the Banks wanted to do in the matter of making year-end charge-offs and drew particular attention to the fact that the New York Bank had requested authority to charge approximately \$2,226,000 to current net earnings for special depreciation on the New York and Buffalo buildings in order to provide that depreciation at the present rate of two per cent per annum would result in providing full depreciation at the end of 1955, or about 30 years from date of occupancy. He also called attention to a request of the Chicago Bank for authority to charge off amounts on its bank premises aggregating \$621,000, including \$282,000 on the site of the Chicago building, for the purpose of bringing the book values of bank premises nearer in line with estimated market values which, however, would bring them below a 40-year depreciation basis.

12/23/40

-6-

Chairman Eccles pointed out that the effect of the New York Bank's proposal would be to permit the use of earnings to write off the New York and Buffalo Bank buildings in 30 years and stated that he thought that it would be inadvisable to adopt such a policy at this time. He said that the Federal Reserve Banks may face fundamental changes in the next few years and that, aside from the fact that each Reserve Bank would not be pursuing a uniform course if the requests of the New York and Chicago Banks were approved, he felt that the Banks should conserve their earnings until it is possible to see further ahead. In other words, he said, the Reserve Banks should not depart at this time from the policy heretofore approved by the Board which contemplates that bank premises will be depreciated on a 40-year basis.

Chairman Eccles also stated that the earnings of the Banks not needed to cover expenses and dividends should be retained in surplus or contingent reserves where they could be used to meet any emergencies that might arise and not be used to write down the book value of bank premises which would preclude the use of such funds for any other purpose.

At the conclusion of a discussion, upon motion by Mr. Szymczak, the Board, by unanimous vote, approved the following telegrams to the presidents of the Federal Reserve Banks indicated, each of which included a final sentence reading as follows: "Procedure set forth in Board's December 29, 1936, telegram should be followed as to any net earnings or net losses for the year on industrial advances and commitments."

12/23/40

-7-

Telegram to Mr. Young, President of
the Federal Reserve Bank of Boston:

"Relet December 4 and Mr. Paddock's letter of December 20, your Bank is authorized on December 31 to: pay the regular semi-annual dividend; and (2) set aside reserves of \$50,000 for estimated losses on industrial advances specified in Mr. Paddock's letter."

Telegram to Mr. Harrison, President
of the Federal Reserve Bank of New York:

"Referring Mr. Sanford's December 19 letter, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; (2) set aside reserves for estimated losses of \$107,000 and charge off approximately \$13,000 on industrial advances specified in Schedule 'B' attached to Mr. Sanford's letter; and (3) transfer from surplus to reserves for contingencies an amount equal to profits for the year on sales of Government securities. Board did not approve proposed deduction of \$2,237,000 from current net earnings to be transferred to reserves for depreciation of bank buildings and of other real estate originally acquired for banking house purposes."

Telegram to Mr. Sinclair, President
of the Federal Reserve Bank of Philadelphia:

"Referring Mr. Post's December 10 letter, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; and (2) set aside \$25,000 reserve for estimated losses on the industrial advance specified in statement attached to letter."

Telegram to Mr. Fleming, President
of the Federal Reserve Bank of Cleveland:

"Relet December 9, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; (2) set aside special reserves for depreciation on bank premises of approximately \$813,000; (3) charge off \$100,000 on other real estate originally acquired for banking house purposes at Pittsburgh; and (4) transfer from surplus to reserves for contingencies an amount equal to net earnings added to surplus."

12/23/40

-8-

Telegram to Mr. Leach, President of
the Federal Reserve Bank of Richmond:

"Relets December 13 and 19, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; (2) set aside reserves of \$30,500 for estimated losses on industrial advances specified in statement attached to your December 13 letter; (3) charge off approximately \$35,000 on other real estate originally acquired for banking house purposes; (4) set aside a special reserve of \$225,000 for alterations and improvements, and (5) transfer from surplus to reserves for contingencies an amount equal to net earnings added to surplus. With respect to the special reserve for alterations and improvements please report under Miscellaneous Liabilities block on Form F.R. 34."

Telegram to Mr. Parker, President of
the Federal Reserve Bank of Atlanta:

"Relet December 14, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; (2) set aside reserves of approximately \$32,000 for estimated losses on industrial advances specified in statement attached to your letter; and (3) transfer from surplus to reserves for contingencies an amount equal to net earnings added to surplus."

Telegram to Mr. Schaller, President
of the Federal Reserve Bank of Chicago:

"Referring your October 24 letter and Mr. Dillard's November 14 letter, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; and (2) charge off \$282,000 from book value of site of the Chicago building provided book value is not thereby reduced below estimated market value. Board did not approve proposal to make charge-offs on Chicago and Detroit buildings, which would reduce net book value to point where regular two per cent annual depreciation charge would provide a full depreciation reserve in a period less than 40 years."

Telegram to Mr. Martin, President
of the Federal Reserve Bank of St. Louis:

12/23/40

-9-

"Referring Mr. Stewart's December 12 letter, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; and (2) set aside a special reserve of \$150,000 for depreciation on fixed machinery and equipment."

Telegram to Mr. Peyton, President of
the Federal Reserve Bank of Minneapolis:

"Referring Mr. Powell's November 12 letter, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; and (2) transfer from surplus to reserves for contingencies an amount equal to net earnings added to surplus."

Telegram to Mr. Hamilton, President
of the Federal Reserve Bank of Kansas City:

"Referring Mr. Leedy's December 3 letter, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; and (2) transfer from surplus to reserves for contingencies an amount equal to net earnings added to surplus."

Telegram to Mr. Gilbert, President
of the Federal Reserve Bank of Dallas:

"Relets December 13 and Mr. Coleman's December 19 telegram and telephone conversation with Mr. Van Fossen, your Bank is authorized on December 31 to: (1) pay the regular semi-annual dividend; (2) set aside a reserve of \$20,000 for losses on the industrial advance specified in your letter; and (3) set aside special reserves of approximately \$562,000 for depreciation on bank premises, including \$226,000 to cover cost of major alterations and improvements on Head-Office building which will be charged to reserves for depreciation at end of year."

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

"Referring Mr. Hale's December 6 letter, your Bank is authorized on December 31 to: (1) pay the regular

12/23/40

-10-

"semi-annual dividend; (2) set aside reserves for estimated losses on industrial advances specified in letter of approximately \$31,000; and (3) transfer \$1,000,000 from surplus to reserves for contingencies."

Mr. McKee presented a letter dated November 28, 1940, from Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, regarding the membership application of the American Falls Bank, Inc., American Falls, Idaho, in which Mr. Clerk stated that it would be helpful to the members of the executive committee of the San Francisco Bank if the Board would express its views as to applications for membership of banks of this type which, while having a strong cash, asset and capital position, do not offer sufficient basis for determining their ultimate success or failure. Mr. McKee stated that the Board had on December 21, 1940, approved the membership application of the American Falls Bank, Inc., and that he would recommend that a reply be sent to Mr. Clerk along the lines of the following letter which he presented to the meeting:

"This is in reply to your letter of November 28, 1940, with respect to the application for membership of the American Falls Bank, Inc., American Falls, Idaho, and in which you raise some general questions of policy with respect to applications of small banks.

"The Board believes that the desired understanding might be reached better through personal discussion than through correspondence. Governor McKee and Mr. Paulger are planning to visit your bank shortly after the first of the year and at that time will be pleased to review in full detail with you and members of your Executive Committee the Board's policy with respect to applications for membership."

12/23/40

-11-

The foregoing letter was approved unanimously.

Messrs. Clayton, Thurston, Goldenweiser, and Smead withdrew from the meeting at this point.

Mr. Ransom reported that, pursuant to the discussion had at the meeting of the Board on December 19, 1940, regarding the redesignation of Mr. Curtiss as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Boston, he had put in a telephone call for Mr. Curtiss but had not contacted him until this morning. He said that he had discussed Mr. Curtiss' desire not to be designated as Chairman and Federal Reserve Agent for the year 1941 and had inquired as to his views with regard to the selection of a successor from the other two Class C directors. He said that Mr. Curtiss thought that Mr. Dennison would be more likely to accept the appointment than Mr. Harriman, but suggested that, in the event neither felt his other activities would permit his assuming the added responsibilities, he (Mr. Curtiss) would be willing to retire as Class C director, instead of serving out the remaining year of his term, in order that consideration might be given to the appointment of someone else who could be designated as Chairman and Federal Reserve Agent. In this connection Mr. Ransom said that Mr. Curtiss had suggested the name of Albert M. Creighton, who has served for some years on the Industrial Advisory Committee for the First Federal Reserve District. Mr. Ransom said that he advised Mr.

12/23/40

-12-

Curtiss that he would report the substance of their conversation to the Board and that either he or Chairman Eccles would get in touch with him later with regard to the matter.

After some discussion, it was agreed that Chairman Eccles should call Mr. Dennison on the telephone to ascertain whether he would be willing to accept appointment as Chairman and Federal Reserve Agent at the Boston Bank for the year 1941, and also whether he would be in Washington within the next few days -- and, if not, whether it would be convenient for him to come to Washington for the purpose of meeting with the members of the Board to discuss matters concerning the Boston Bank.

Consideration was then given to the question of filling the vacancy on the directorate of the Federal Reserve Bank of New York which will be occasioned by the expiration at the end of this year of the term of Owen D. Young, who has expressed a desire not to be reappointed as Class C director and as Chairman and Federal Reserve Agent.

At the conclusion of a discussion, Chairman Eccles was authorized to contact Messrs. Ruml, Day and Walter W. Stewart (Professor of Institute for Advanced Study at Princeton University) for the purpose of ascertaining whether they would be willing to accept appointment as Chairman and Federal Reserve Agent, Deputy Chairman, and Class C director, respectively, at the Federal Reserve Bank of New York, for terms beginning January 1, 1941; with the understanding that Chairman Eccles would report the results of his conversations at a meeting of the Board to be

12/23/40

-13-

held on December 26, 1940, and with the further understanding that, if the replies are favorable, the Board will make the appointments indicated.

Mr. Szymczak reported on his investigations looking to filling the vacancy on the directorate of the Federal Reserve Bank of Chicago caused by the resignation, effective January 1, 1941, of Robert E. Wood as Class C director.

By unanimous vote the Board authorized Mr. Szymczak to contact Messrs. Lewis, Gregory and Simeon E. Leland (Professor of Economics at the University of Chicago) for the purpose of ascertaining whether they would be willing to serve as Chairman and Federal Reserve Agent for 1941, Deputy Chairman for 1941, and Class C director (for unexpired portion of term ending December 31, 1941), respectively, at the Federal Reserve Bank of Chicago.

The Board also authorized Mr. Szymczak to ascertain whether Clarence W. Avery, President and Chairman of the Board of Murray Corporation of America, Detroit, Michigan, would be willing to accept appointment as a director of the Detroit Branch of the Federal Reserve Bank of Chicago for the three-year term beginning January 1, 1941.

Subject to Mr. Szymczak's obtaining favorable responses to his inquiries, the Board approved the appointments at the Federal Reserve Bank of Chicago and its Detroit Branch as indicated above, and Mr. Lewis' compensation as Chairman and Federal Reserve Agent at the Chicago Bank was fixed on the uniform basis fixed for the same position at other Federal Reserve Banks.

Mr. McKee referred to the action taken by the Board at its meeting on December 19, 1940, leaving to the discretion of the Personnel Committee the question when the wire advices of appointment

12/23/40

-14-

should be sent to the Class C and branch directors, Chairmen and Federal Reserve Agents, and Deputy Chairmen, who had been appointed at that meeting. He suggested that all such wires be released on Thursday, December 26, 1940, and that, in notifying the Federal Reserve Banks of appointments, the Board request that no information regarding them be given the press in advance of the release of the usual press statement in Washington.

Mr. McKee's suggestions were approved unanimously.

Mr. Clayton stated that Colonel Mechem of the Office of Purchases and Contracts of the War Department called on him last Saturday forenoon and advised him that, in conferring with Under Secretary of War Patterson about proposed instructions to Army contracting officers, Mr. Patterson had thought that he should have the recommendation both of the National Defense Advisory Commission (through Mr. Donald Nelson) and of the Board of Governors of the Federal Reserve System as to the provisions regarding the reassignment of contracts and the waiver of the Government's right of set-off before those provisions should be included in such instructions. Colonel Mechem pointed out, Mr. Clayton said, that he had not made the request for a recommendation through Governor Draper's section because he understood that such section had to do mainly with the Federal Reserve System's function as operating agent for the Defense Commission and he thought that the Reserve Board should make its recommendation as a bank supervisory agency and from

12/23/40

-15-

the point of view of its interest in the financial aspects of the Assignment of Claims Act of 1940. Mr. Clayton said that, after conferring with Mr. Morrill, he had drafted the following letter to Under Secretary Patterson, which met with Governor Draper's approval and was now being submitted for the Board's approval:

"The Board has been advised informally that the War Department expects to issue shortly a Procurement Circular to contracting officers with reference to the provisions of the Assignment of Claims Act of 1940 and that the War Department would like to have the recommendations of the Board of Governors with reference to the inclusion of provisions permitting the reassignment of claims by the original assignee and waiving the Government's right of set-off arising independently of the contract.

"It is the view of the Board that the Assignment of Claims Act of 1940 was passed by Congress primarily for the purpose of aiding the production of defense materials by making it possible for contractors to obtain financial assistance from banks and other lenders secured by assignment of the claim arising out of the contract. While the statute, for good reasons, did not make it mandatory that all such Government contracts be assignable nor that the Government's right of set-off be waived in all cases, nevertheless it is apparent that the financing of such contracts would be hindered unless the provisions referred to are included. It is also apparent that in many cases the original assignee of such a claim might wish to reassign the claim as, for instance, where a small bank might find it necessary to reassign some of its claims to other banks.

"In view of the foregoing considerations the Board of Governors is glad to recommend that the proposed Procurement Circular contain instructions to contracting officers that, except in cases where the interest of the Government would be substantially prejudiced, assignable contracts be reassignable and that the right of set-off be waived. It is also recommended that the terms of such provisions be as liberal as the War Department feels is consistent with the Government's interest."

Approved unanimously.

12/23/40

-16-

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

The minutes of the meeting of the Board of Governors of the
Federal Reserve System held on December 21, 1940, were approved unani-
mously.

Memorandum dated December 17, 1940, from Mr. Goldenweiser,
Director of the Division of Research and Statistics, recommending,
for the reasons stated in the memorandum, that Nathaniel Weyl be ap-
pointed as a junior economist in the Division of Research and Statistics,
with salary at the rate of \$3,400 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.

Letter to Mr. Robert L. Mehornay, Deputy Director of Small
Business Activities of the Advisory Commission to the Council of Na-
tional Defense, reading as follows:

"In response to your memorandum of December 17,
1940 addressed to Mr. Smead, you are advised that the
Board of Governors has approved the temporary assignment
of Mr. L. S. Myrick to your office for the period from
December 19, 1940 to January 6, 1941.

"In this connection it is understood that Mr. Myrick
will need the services of a stenographer during the tem-
porary assignment to your office, and that Mrs. Ontrich
will be assigned to assist him."

Approved unanimously.

Letter to the board of directors of the "Farmers Trust Company

12/23/40

-17-

of Middletown", Middletown, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 6 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 Philadelphia.

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 and trust business, such as the power to act as surety in certain circumstances. Attention is invited to the fact that if the bank desires 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, together with a letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Farmers Trust Company of Middletown', Middletown, Pennsylvania, for membership in the Federal Reserve System, 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 Secretary of Banking for the Commonwealth of Pennsylvania for his information.

"In submitting the application the Reserve Bank did not recommend any special conditions of membership and,

12/23/40

-18-

"since assurances have been given by the bank that estimated losses classified in the report of examination for membership would be eliminated prior to admission of the bank to membership, the usual condition regarding the elimination of losses has not been prescribed. It is assumed, however, that you will satisfy yourself that provision has been made for eliminating losses in accordance with the assurances given.

"It has been noted that the bank's articles of incorporation were amended in 1934 to increase the bank's capital from \$125,000 to \$150,000, the stockholders' resolution providing that this should be accomplished through stock dividends. However, it appears from the information submitted that the present capital is \$125,000. It is assumed that the capital was not actually increased within one year from the date of the issuance of the certificate of amendment and that, under the Pennsylvania statutes, the amendment became invalid and inoperative. However, information with respect to the matter will be appreciated."

Telegram to Mr. Schaller, President of the Federal Reserve Bank of Chicago, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, the Board approves the application of the "Citizens Banking Company", Anderson, Indiana, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank. The telegram also contained the following special comments:

12/23/40

-19-

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice.

"It is noted that the bank has 12 directors and that your examiner states that that is the number required by the by-laws. However, it is noted that the bank's articles of incorporation provide that there shall be 11 directors and it is our understanding that the State statutes provide that, while the exact number of directors shall be determined from time to time in such manner as the by-laws may prescribe, the number shall not exceed the maximum number fixed in the articles of incorporation. This matter is mentioned with the view that, if our understanding is correct, you may wish to suggest to the bank that the irregularity be corrected when it is convenient to do so."

Approved unanimously.

Telegram to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the application of "The Stock Exchange Bank of Caldwell, Sumner County, Kansas", Caldwell, Kansas, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding

12/23/40

-20-

such approval would be forwarded to the applicant bank through the Reserve Bank.

Approved unanimously.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the application of "The First State Bank, Aransas Pass, Texas", Aransas Pass, Texas, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank.

Approved unanimously.

Letter to the "First Security Bank of Idaho", Boise, Idaho, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by you on behalf of the First Security Bank of Idaho, National Association, Boise, Idaho, the national bank into which the First Security Bank of Idaho, Boise, Idaho, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency

12/23/40

-21-

"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 Idaho, 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 conversion of the First Security Bank of Idaho into the First Security Bank of Idaho, National Association, becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise trust powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of San Francisco 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.

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

"Relet December 17. In view of pending negotiations regarding taxation of bank's capital stock, Board will interpose no objection to proposed retirement of \$5000 of capital debentures by First State Bank, Kerrville, Texas, provided bank maintains reserve for dividends payable in common stock in at least equivalent amount until stock is issued. Board's action is with understanding that tax negotiations will be completed and, regardless of outcome, stock will be issued within relatively short time, and that if such action is not taken prior to December 31, 1941, you will review the situation and resubmit the matter to the Board with your recommendations. Please advise bank accordingly."

Approved unanimously.

12/23/40

-22-

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

"This refers to Mr. Kennel's letter of December 12, 1940, and our previous correspondence, relating to an inquiry from The Factory Point National Bank of Manchester Center, Manchester Center, Vermont, with respect to whether the assignment of certain savings bank deposits to the trust department of the bank would satisfy the requirement that the bank deposit securities in its trust department to secure trust funds used by it in the conduct of its business.

"As indicated by our letter of November 27, 1940, it is doubtful that any savings deposits could be considered securities such as would comply with the pertinent requirements of section 11(k) of the Federal Reserve Act and section 9(b) of the Board's Regulation F and, upon the basis of the information submitted, it seems clear that the assignment of the deposits in question in this instance would not satisfy such requirements. Please advise the bank accordingly.

"Also, if the bank has not already been so advised, it is suggested that you point out that the requirement for security for trust funds held by national banks is prescribed by law and that the Board is without authority to exempt funds to the extent that they are insured by the Federal Deposit Insurance Corporation, as was urged by the bank in its correspondence with you."

Approved unanimously.

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

"Reference is made to your letter of December 13, 1940, with regard to air conditioning your Head Office building.

"The Board has considered the proposal as outlined in your letter and will interpose no objection to the expenditure of approximately \$225,000 to air condition the building and to enclose the present court space, extending the floors across the court on each floor level."

Approved unanimously.

12/23/40

-23-

Letter to Mr. A. Maitland Organ, 82 Queen's Drive, Glasgow, Scotland, reading as follows:

"Reference is made to your letter of Tuesday 12th November 1940 to Mr. David Schenker, Director, Investment Company Division, Securities and Exchange Commission, Washington, D. C., requesting certain information concerning the bank holding companies indicated in your letter.

"The information which you requested with respect to such organizations has been obtained by the Board through applications for voting permits, periodic reports, and reports of examination, for use by the Board in the discharge of its responsibilities for the supervision of holding company affiliates of member banks. It has not been the policy of the Board to publish such information or furnish it to individuals. Accordingly, we regret that we can not supply you with the information requested. However, we are taking the liberty of forwarding to an executive officer of each of these holding companies, as listed below, a copy of your letter and of this reply, with the thought that they might be willing to furnish you directly the information which you desire.

Mr. Henry W. Dew, President, Florida National Group, Inc., Jacksonville, Florida.

Mr. Harry A. Gregg, President, New Hampshire Bankshares, Inc., Nashua, New Hampshire.

Mr. Ralph C. Gifford, Chairman, Trustees Under Trust Agreement with reference to Stock of the First National Bank of Louisville, Ky. and Other Corporations dated July 1, 1925, Louisville, Kentucky.

Mr. D. W. McGillwray, President, Union Bond & Mortgage Company, Port Angeles, Washington."

Approved unanimously.

12/23/40

-24-

Thereupon the meeting adjourned.

Chester Moriel
Secretary.

Approved:

W. C. C. C. C.
Chairman.