

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 27, 1940, at 2:30 p.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 26, 1940, were approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Sanford, Secretary of the Federal Reserve Bank of New York, Messrs. Walden and McLarin, First Vice Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on December 24, by the Federal

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Reserve Banks of New York, Richmond, Atlanta, Minneapolis, and Dallas on December 26, by the Federal Reserve Bank of St. Louis on December 27, and by the Federal Reserve Bank of Boston on December 30, 1940, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated December 26, 1940, from Mr. Foulk, Fiscal Agent, recommending that an assessment of three hundred and two thousandths of one per cent (.00302) of the total paid-in capital and surplus (Section 7 and Section 13b) of the Federal Reserve Banks as of the close of business December 31, 1940, be levied to cover the general expenses of the Board for the six months' period beginning January 1, 1941, and that the Federal Reserve Banks be instructed to pay in the assessment in two equal installments on January 2, 1941, and March 1, 1941.

The following resolution levying an assessment in accordance with the Fiscal Agent's recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal

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"Reserve System that for the six months' period beginning January 1, 1941, it is necessary that a fund equal to three hundred and two thousandths of one per cent (.00302) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

"(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to three hundred and two thousandths of one per cent (.00302) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business December 31, 1940.

"(2) Such assessment shall be paid by each Federal Reserve Bank in two equal installments on January 2, 1941, and March 1, 1941, respectively.

"(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Memorandum dated December 23, 1940, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated December 18, 1940, from Mr. Drinnen, First Vice President of the Federal Reserve Bank of Philadelphia, requesting approval by the Board of changes in the personnel classification plan of the Philadelphia Bank to provide for the creation of the new position of "Business Analyst" in the Research and Statistics Department; the elimination of the positions of "Office Supervisor" in the Bank Examination Department, and "Business

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Reporter" in the Research and Statistics Department; change in title and maximum salary for the position of "Manager, Division of Reports and Analysis" in the Bank Examination Department; and reduction in the maximum salary for the position of "Statistical Clerk" in the Research and Statistics Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

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

"In accordance with your letter of December 20, the Board approves the appointments, effective January 1, 1941, of Rutherford Yeates and Clarence D. Shelburne as assistant examiners for the Federal Reserve Bank of Richmond."

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 December 21, the Board approves the appointment of Ernest James Barber as an assistant examiner for the Federal Reserve Bank of Atlanta. Please advise us of the effective date."

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of December 19, 1940, the Board of Governors approves the payment of a salary to Mr. Dana D.

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"Sawyer, Alternate Assistant Federal Reserve Agent, at the rate of \$3,500 per annum, effective January 1, 1941."

Approved unanimously.

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

"Relet December 24. Board approves payment of \$5,562.30 to Squire, Sanders and Dempsey to cover total bill for extra legal services and expenses for year 1940, which previously has been approved by the executive committee of your board of directors."

Approved unanimously.

Telegram to Mr. Leach, President of the Federal Reserve Bank of Richmond, 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 "Bank of Shawsville, Incorporated", Shawsville, Virginia, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Richmond. 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 comment:

"It appears that the bank possesses certain powers

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"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 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.

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 and the following special condition, the Board approves the application of "The Beloit State Bank", Beloit, Wisconsin, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses totaling \$38,571.79, as shown in the report of examination of such bank as of November 16, 1940, made by an examiner for 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

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to the applicant bank through the Reserve Bank. The telegram also contained the following special comment:

"The reasons why the estimated losses of approximately \$61,700 in two large lines were not classified as IV have been noted and in view of all of the circumstances the elimination of the estimated losses in the two lines has not been required as a condition of membership. Since this is an exception to the general policy, it is believed that the Reserve Bank should obtain satisfactory assurances from the bank that, until the loans have been entirely eliminated through charge-off or payment, adequate security will be held at all times under the agreement entered into with one of the directors of the bank with respect to the two loans, a copy of which agreement was included in the report of examination for membership. It is understood from conversation with Mr. Young that such assurances can and will be readily obtained."

Approved unanimously.

Telegram to Mr. Martin, President of the Federal Reserve Bank of St. Louis, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the application of the "First Bank and Trust Company", Cairo, Illinois, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses aggregating \$8,722.49, as shown in the report of examination of such bank as of November 22, 1940, made by an examiner for the Federal Reserve Bank of St. Louis."

The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions

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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:

"In his letter transmitting the application Mr. Hitt said that the question of what, if any, restrictions should be required with respect to the bank's real estate department had been left to the determination of the Board. It is assumed that the reference to possible restrictions is due to the fact that conditions of membership prohibiting such activities were prescribed in the Little Rock and Hot Springs cases some years ago. The Board, however, has recently decided not to prescribe generally a condition of membership restricting or prohibiting a bank from acting as agent in the sale or rental of real estate but to prescribe such a condition only in unusual cases where it appears that the activities as real estate agent reflect abuses or unsound practices on the part of the bank. In such cases the matter will be handled in the same manner as if the abuses or unsound practices were reflected in the operations of any other department of the bank. Since in this instance no criticisms of the operations of the real estate department have been reported, a condition of membership with respect thereto has not been prescribed.

"It is assumed that your office will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings accounts listed on page 16 of the report of examination for membership."

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 Commercial Bank", Blue Hill, Nebraska,

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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 such approval would be forwarded to the applicant bank through the Reserve Bank. The telegram also contained the following special comment:

"It is understood that The Commercial Bank will promptly take action necessary in order to have duly constituted board of directors of at least five members and it is assumed that your bank will follow the matter."

Approved unanimously.

Telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of Chicago, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Wisconsin Bankshares Corporation", Milwaukee, Wisconsin, entitling such organization to vote the stock which it owns or controls of "The Baraboo National Bank", Baraboo, Wisconsin, at any time prior to April 1, 1941, to elect directors of such bank at the annual meeting of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meeting of such bank.

Approved unanimously.

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Telegrams to Mr. Force, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue limited voting permits, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Old National Corporation" and "Investment and Securities Company", both of Spokane, Washington, entitling such organizations to vote the stock which they own or control of "The Old National Bank and Union Trust Company of Spokane", Spokane, Washington, and the "First National Bank in Spokane", Spokane, Washington, at any time prior to April 1, 1941, to elect directors of such banks at the annual meetings of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

Approved unanimously, together with the following letter to Mr. Day, President of the Federal Reserve Bank of San Francisco:

"This refers to the Board's letter of December 9, 1940, (R-742) requesting that you obtain annual reports for 1940 on Form F. R. 437 from the holding company affiliates in your district which hold general voting permits. Although Old National Corporation and Investment and Securities Co., both of Spokane, Washington, do not hold general voting permits and therefore have not been requested in the past to file the regular annual reports, it is desired that you obtain from them reports on Form F. R. 437 covering the year 1940. The Board has been called upon from time to time to grant limited voting permits to Old National Corporation and Investment and Securities Co., and such limited permits have been granted in view of all existing circumstances regarding the condition, management, and functions of the holding company affiliates and other organizations included in the Old

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"National group. It is felt that the Board should receive information from these two holding company affiliates similar to that which is received from other holding company affiliates which are subject to the Board's supervision by reason of the issuance of voting permits.

"In obtaining the reports from Old National Corporation and Investment and Securities Co., we wish to avoid placing upon them the unnecessary burden of preparing a mass of detailed data which would not be essential for the Board's purposes. For example, strict adherence to the instructions contained in item 1 of Supplemental Information on page 9 of Form F. R. 437 would no doubt involve a great amount of labor in compiling detailed information regarding notes receivable pledged by Investment and Securities Co., and it is doubtful that such detailed data would be necessary at this time. Accordingly, it is suggested that you inform the holding company affiliates that, although it is desired that their reports be complete, as contemplated by Form F.R. 437, detailed data may be restricted to information which may reasonably be regarded as important or significant.

"Certain portions of Form F. R. 437, such as item 7(b) on page 9, require information regarding the period since the date of the previous report to the Board. In connection with such items, October 31, 1939, may be regarded as the date of the previous report, inasmuch as information as of that date was furnished by the holding company affiliates to supplement and bring up to date certain exhibits accompanying their applications for voting permits.

"A supply of Form F. R. 437 is enclosed for use in obtaining the reports from Old National Corporation and Investment and Securities Co. The same procedure should be followed in handling these reports as is applicable to the reports of holding company affiliates having general voting permits.

"It is suggested also that, in view of the Board's responsibilities arising from the continued issuance of limited voting permits to Old National Corporation and Investment and Securities Co., consideration should be given to the desirability of arranging for a simultaneous examination, as soon as practicable, of the two holding company affiliates, their subsidiary banks, and the other organizations included in the Old National group."

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

"Reference is made to your letters of October 1, 1940, November 23, 1940, and December 9, 1940, submitting various documents and information with respect to the purchase of assets and assumption of deposit liabilities of the Stillwater National Bank, Columbus, by The Yellowstone Bank, Columbus, Montana, which was effected on September 9, 1940.

"From the information submitted it appears that the transaction did not involve any change in the general character of assets or broadening in the functions exercised by the member bank within the meaning of condition numbered 2, under which the bank was admitted to membership.

"However, it is noted that even with the voluntary contribution of \$10,500 made by the stockholders of The Yellowstone Bank, the deposit liability assumed has resulted in a substantial lowering of the ratio of book capital account to deposits. In the circumstances, the Board will expect that, in conformity with the assurances given to you by President Harris, earnings of the bank will be conserved until a satisfactory ratio of capital account to deposits has been provided."

Approved unanimously.

Telegram to Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring your December 24 letter and our December 23 wire, your Bank is authorized to charge off \$2,938.17 to reduce to \$1 net book value of miscellaneous assets acquired in settlement claims account closed banks."

Approved unanimously.

Mr. Szymczak stated that at his request Mr. Simeon E. Leland, Professor of Economics, University of Chicago, Chicago, Illinois, had come to Washington this week in connection with his prospective service

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as a class C director of the Federal Reserve Bank of Chicago, and that he (Mr. Szymczak) would recommend that the Board reimburse Mr. Leland for the expenses incurred by him in connection with the trip.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

W. S. ...

Chairman.