

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 19, 1941, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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 August 18, 1941, were approved unanimously.

Memorandum dated August 11, 1941, from Mr. Nelson, Assistant Secretary, submitting for approval the extension of the temporary appointment of Mrs. Mary H. Coman as a clerk in the Division of Bank Operations for an additional period of not to exceed six months from September 4, 1941, with no change in her present salary at the rate of \$120 per month.

Approved unanimously.

Memorandum dated today from Mr. Nelson, Assistant Secretary, submitting the resignation of Stewart Thorn as a clerk in the Secretary's Office, to become effective as of the close of business on August 19, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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Letter to "The First National Bank of Marietta", Marietta, Georgia, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for permission to exercise certain fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee and registrar of stocks and bonds only in connection with the Marietta Housing Authority and the Cobb County Airport projects, the exercise of 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.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

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

"This refers to your letter of July 8, 1941 enclosing an analysis covering the report of examination made by your examiners of the City State Bank and Trust Company of McAllen, Texas, as of May 10, 1941. In this connection, you submitted a request of the management of the bank for a reconsideration of the following condition of membership numbered 17 to which the bank is subject:

'Such bank shall charge off annually as depreciation not less than 5 per cent of the carrying value of its banking house, as shown in the Federal Reserve Examiner's report as of March 25, 1933, until the book value of such banking house has been reduced to 50 per cent of such carrying value; thereafter such bank shall make adequate provision for depreciation in its banking house, which in any one year, shall be not less than 2 per cent of such carrying value.'

"If the bank makes provision for depreciation in accordance with a program satisfactory to the Federal Reserve

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"Bank of Dallas, the Board will deem such action as compliance with the requirements of the condition and waive compliance with the condition's specific requirements.

"You also pointed out that the State laws do not limit balances carried with private banks and stated that the management of the City State Bank and Trust Company is of the opinion that this is a statutory right which the bank was entitled to retain when it was admitted to the Federal Reserve System and that it should be released, in so far as the condition relates to balances carried with private banks, from compliance with its membership condition numbered 11, which reads as follows:

'Such bank shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.'

"This condition was lawfully prescribed and accepted by the bank at the time it became a member of the Federal Reserve System and the Board does not feel that any action should be taken by it to relieve the bank from compliance with its requirements.

"As you know from previous consideration of this case, there is a question as to the technical applicability of the terms of the condition to balances carried by the member bank with private banks. In this connection, reference is made to a letter which the Board addressed to Mr. Walsh, who was then Federal Reserve Agent at the Federal Reserve Bank of Dallas, on August 27, 1935, with regard to balances carried with a private bank by The Security Bank and Trust Company of Wharton, Texas. In that letter, it was pointed out that the provisions in section 19 of the Federal Reserve Act restricting deposits by a member bank with a nonmember 'State bank or trust company' to a sum not in excess of 10 per cent of the member bank's capital and surplus is not technically applicable to a deposit by a member bank with an unincorporated firm of private bankers. However, the Board further advised Mr. Walsh as follows:

' *** the purpose of the provision to which you refer is obviously to restrict the amount of deposits of member banks in banking institutions which are not members of the Federal Reserve System. Therefore, it is felt that the carrying of

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"the balance here in question is contrary to the spirit and purpose of the Federal Reserve Act and should be discouraged, ***."

"The condition of membership quoted above is in conformity with the provision contained in section 19 of the Federal Reserve Act and is subject to the same construction as the provision of the statute, both from a technical standpoint and from the standpoint of the spirit and purpose of the requirement. It is felt, therefore, that any excess balance carried with a private bank by the City State Bank and Trust Company of McAllen should be discouraged, and it is hoped that you will be able to dispose of the matter satisfactorily on this basis."

Approved unanimously.

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

"This refers to your letter of July 30, 1941, enclosing a memorandum from your Counsel concerning the legal restrictions upon the hoarding of currency. You state that your Counsel is not sure that his view on this subject is correct and you inquire whether we have any material on this subject.

"There is enclosed a copy of a memorandum on this subject which Mr. Cherry addressed to the Board under date of May 23, 1941. You will note, however, that this memorandum does not discuss the point of doubt felt by Mr. Wallace as to the effect of the Executive Orders of April 5 and April 20, 1933 upon the preceding Executive Orders relating to the withdrawal of currency for hoarding. The members of Counsel's Office who have considered this matter are of the opinion that the Orders of April 5 and April 20 do not amend or modify the provisions contained in the Proclamation of March 6 and the Executive Orders of March 10 and December 30, 1933 which specifically enjoin banking institutions from allowing the withdrawal of currency for hoarding. This point is illustrated by the fact that each license currently issued by the Treasury to a State bank which becomes a member of the Federal Reserve System contains a provision that the bank so licensed shall not allow the withdrawal of any currency for hoarding. This at least indicates the position the Treasury Department

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"takes in connection with this matter.

"It is believed that the Executive Orders of April 5 and April 20, 1933 were intended to deal with a different phase of the problem and were not intended to supersede the Proclamation of March 6 and the Executive Orders of March 10 and December 30, 1933.

"It is clear that, under section 5(b) of the Act of October 6, 1917, as amended, the President has the power to investigate, regulate, or prohibit the hoarding of currency by any individual, partnership, association or corporation in the United States and that he could issue an Executive Order for this purpose at any time that he decides that the public interest so requires.

"It is evident that Mr. Wallace has given careful and thorough consideration to this matter and we appreciate your furnishing us with a copy of his memorandum."

Approved unanimously.

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

"We acknowledge receipt of your letter of August 11, 1941, transmitting for the approval of the Board of Governors the bill from your counsel, Squire, Sanders & Dempsey, dated August 9, 1941, for \$204.75, in connection with the extension of commitment from your bank, under subsection (b) of section 13b of the Federal Reserve Act, by The Ohio Citizens Trust Company, Toledo, Ohio, to Spayd-Ohio Manufacturing Company, Van Wert, Ohio. We assume that the fee has been approved by your board of directors.

"We wish to advise you that the Board of Governors approves payment of this fee as above described."

Approved unanimously.

Thereupon the meeting adjourned.

Obester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.