Upon call of the Governor, a meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, December 15, 1925 at 11:15 a.m.

PRESENT: Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. Eddy, Secretary

PRESENT ALSO: Mr. Collins, Deputy Comptroller of the Currency
Professor O. M. W. Sprague
Mr. Wyatt, General Counsel
Mr. Stewart, Director of the Division of Research & Statistics
Mr. Noell, Assistant Secretary

The reading of the minutes of the meeting of the Federal Reserve Board held on December 14th was dispensed with.

Report of the Committee on Agricultural Credits on the matter referred to it at the meeting on December 8th, namely, letter dated December 2nd from the Governor of the Federal Reserve Bank of New York, transmitting communication addressed to him by Eugene Arnett Inc., of Oklahoma City, on the subject of agricultural credits; the Committee submitting draft of a reply to the communication of Eugene Arnett, Inc., stating that the matter under discussion is one in which the Federal Reserve System as such can not participate and on which it is not in a position to express any opinion.

Upon motion, the proposed reply was approved.

The Governor then presented letter dated December 11th from the Chairman of the Committee on Banking and Currency of the House of Representatives, transmitting a copy of H. R. 2, the so-called McFadden
Bill, with certain modifications in the form in which it was introduced at the last session of Congress as H. R. 8887 and requesting the views of the Board thereon.

In this connection, the Governor stated that special order business for this morning's meeting would be the interim report of the Committee of Governors and Federal Reserve Agents appointed by the Board to study necessary banking legislation, submitted in the form of minutes of the three meetings of that Committee. He stated that certain of the recommendations of the Committee had been referred to the Federal Advisory Council and that the recommendations of the Council would also be considered.

The Board first discussed with Professor Sprague, who has been assisting the Committee, a proposed revision of Section 5200 of the Revised Statutes. The various provisions of Section 5200 were considered separately and, upon motion, were tentatively approved in the following revised form:

"Section 5200. The total liabilities to any national banking association of any person, firm, company, or corporation for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per centum of the capital stock of such association actually paid in and unimpaired, and 10 per centum of its unimpaired surplus fund. This limitation as to such liabilities to such association shall be subject to the following exceptions:

(1) Liabilities arising out of the discount or purchase of the following described paper shall be subject to no limitations based upon the amount of such capital and surplus:

(a) Bills of exchange drawn in good faith against actually existing values; (b) Commercial or business paper actually owned by the person, firm, company or corporation negotiating the same; (c) Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped -- but provided that
"no such drafts, bills of exchange, or commercial or business paper included under (a), (b), and (c) of this subtitle, shall be included within the meaning of this exception when both drawer and drawee, or both maker and payee are corporations and one such corporation is affiliated with or a subsidiary of the other, i. e., if a majority of the stock of one such corporation is owned by the other or by the stockholders thereof;

(d) Demand obligations when secured by documents covering commodities in actual process of shipment when such obligations are or have been discounted or purchased for the account of the drawer or endorser;

(e) Bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act;

(f) Obligations secured by not less than a like face amount of bonds, notes, or certificates of indebtedness of the United States.

(2) Liabilities arising out of the discount or purchase of the following described paper shall be subject to the following limitations based upon the amount of such capital and surplus, but provided that the exceptions permitted under this sub-title shall not be cumulative;

(a) Liabilities as surety, drawer, endorser, or guarantor, other than of bills of exchange, notes and commercial and business paper excepted under (1) hereof and excluding accommodation paper, having a maturity of not more than six months, where the surety, drawer, endorser, or guarantor obtains a loan from or discounts paper with or sells paper to any national banking association, shall at no time exceed 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus but provided further that such obligations as surety, drawer, endorser, or guarantor of any corporation a majority of the stock of which is owned by any borrower shall be included as a part of the aggregate obligations of such borrower;

(b) Notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable non-perishable staples when such property is fully covered by insurance, where such commodities are customarily insured, provided that the market value of such staples is at no time less than 115 per centum of such obligations, shall be subject to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus, but this exception shall not apply to obligations of
"any borrower arising from the same transactions and secured upon the identical staples for more than six months, and provided further that obligations of this character shall be subject to a further increase of limitation of 15 per centum of such capital and surplus in addition to such 25 per centum of such capital and surplus for a period of not more than three months;

(c) Notes secured by documents conveying or securing title covering livestock when the actual market value of such livestock is not less than 115 per centum of the face amount of the notes secured by such documents, when such livestock are being prepared for market during the period of the loan, shall be subject to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus, but this exception shall not apply to the obligations of any one borrower for more than nine months."

Action upon all of the above was unanimous except Paragraph 1 (f), on the motion to approve which Messrs. Hamlin and Miller voted "no".

Paragraph 2 (a) was adopted on condition that a correlated provision be included in the Federal Reserve Act.

At one o'clock the meeting recessed until 2:30 o'clock, reconvening at that time with the same members and officials present as attended the morning session, with the exception of Dr. Stewart.

The following amendment to Section 5136 of the Revised Statutes, contained in H. R. 2, was then considered and tentatively approved:

"Provided, That the business of buying and selling investment securities shall hereafter be limited to buying and selling without recourse marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation, in the form of bonds, notes, debentures and the like, commonly known as investment securities, under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency, and the total amount of such investment securities of any
"one obligor or maker held by such association shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, but this limitation as to total amount shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act."

The Board then considered the recommendations of the Committee for certain amendments to the National Banking Law designed to furnish more adequate data regarding the conditions of national banks through examinations.

Upon motion, it was voted to approve tentatively the following new provision:

"All obligations of every nature both direct and indirect arising out of the sale, pledge, or hypothecation of any of its assets by a national banking association shall be definitely recorded upon its books at the time such assets are sold, pledged, or hypothecated. For each failure to comply with this requirement a national banking association shall be subject to a fine of Five Hundred Dollars, to be imposed by the Comptroller of the Currency."

Upon motion, it was voted to approve the following provision in principle, as an amendment to the Federal Reserve Act to apply to both national banks and state member banks or as an amendment to the National Banking Law with a similar provision in the Federal Reserve Act to cover state member banks:

"Where an officer or director of a national banking association is an officer or director of any other bank, banking association, trust company, securities company or investment company, and where in the judgment of the Comptroller of the Currency the national banking association is related in management and operation in such close degree with such other bank, banking association, trust company, securities company or investment company, that the examination of the national bank fails to disclose its true condition in the absence of detailed information regarding such other related institutions, then such other bank, banking association, trust company, securities company or investment company shall furnish the Comptroller of the Currency with a copy of an examination simultaneously..."
made by the State authorities or through such arrangements as may be deemed satisfactory by the Comptroller of the Currency furnish detailed information regarding its condition and operations; and upon failure so to do the officer or director shall be disqualified from serving after the next annual meeting of the shareholders of the association and in such cases the Comptroller of the Currency, upon request, is authorized to furnish the State Supervisor of Banking, or other similar officers, copies of such examination of the affiliated national bank."

Upon motion, it was voted to approve the following as a new paragraph at the end of Section 5146 of the Revised Statutes:

"It shall be unlawful for any national banking association to make a loan or loans of more than Five Hundred Dollars in the aggregate unless secured by readily marketable collateral, to any salaried officer of such association or to any corporation in which such officer or any director of such banking association owns or controls a majority of the stock or is an officer or director, except upon submission in approved form to the board of directors of such association, as a condition precedent, of a financial statement from such officer or from such corporation as the case may be. A violation of this provision shall disqualify any such officer or director and vacate his place."

The Board then considered and tentatively approved the following miscellaneous amendments recommended by the Committee:

"Sec. 5205. Shorten the period allowed for payment of assessments in cases of impaired capital from three months to two months with a further provision authorizing the Comptroller of the Currency to extend the period when in his judgment it may be deemed advisable.

Sec. 5146. Last Sentence. Any director who ceases to be the owner of the required number of shares of the stock or who pledges or hypothecates the same, or who becomes in any other manner disqualified, shall be declared by the Comptroller of the Currency to have vacated his place."
In connection with the latter amendment, it was the consensus of opinion that it should be revised to strike out the provision that directors referred to shall be declared by the Comptroller to have vacated their places.

The Board then considered the following amendments contained in

H. R. 2:

"The amendment to Section 5150 of the Revised Statutes providing that the board of directors of a National bank may designate a director in lieu of the President to be Chairman of the Board."

Tentatively approved.

"The amendment to Section 5136 of the Revised Statutes providing for indeterminate charters for National banks, rather than for 99 year charters."

Tentatively approved.

"The amendment to Section 3 of the Consolidation Act of November 7, 1918, simplifying the procedure in the consolidation of State and National banks."

Tentatively approved with the exception of those provisions relating to branch banks.

"The amendment to Section 5137 of the Revised Statutes providing for the purchase of real estate by a National bank such as shall be necessary for its accommodation in the transaction of business rather than for immediate use as at present provided."

Tentatively approved.

"The amendment to Section 5142 of the Revised Statutes providing for simplification of the process of capital increase by stock dividends."

Tentatively approved.

"Amendment to Section 5138 of the Revised Statutes authorizing the chartering of National banks in outlying sections of large cities with a capital of $100,000."

Tentatively approved.
"The amendment to Section 22 of the Federal Reserve Act relating to thefts by National bank examiners."

Tentatively approved.

"The amendment to Section 5211 of the Revised Statutes granting authority for the signing of reports of condition by the vice president or assistant cashier."

Tentatively approved.

"The amendment to Section 5208 of the Revised Statutes relating to the certification of checks.

Tentatively approved.

"The amendment to Section 5136 of the Revised Statutes providing that National banking associations may engage in safe deposit business."

Tentatively approved.

"The amendment to Section 24 of the Federal Reserve Act lengthening the maturity period of city real estate loans by National banks from 1 to 5 years, allowing such loans anywhere within the Federal Reserve district, as well as within a 100 mile radius as at present, opening this business to the banks of central reserve cities, and increasing the amount to which such loans may be made from 33 1/3 per cent to 50 per cent of the National bank's savings deposits."

Tentatively approved.

"The amendment to Section 24 of the Federal Reserve Act providing that the rate of interest which National banks may pay upon time deposits, or upon savings or other deposits, shall not exceed the maximum rate authorized for State banks or trust companies organized under the laws of the State in which the National bank is located."

Tentatively disapproved.

Messrs. Wyatt and Sprague were then requested by the Board to prepare a complete redraft of Section 5200 and a draft of a letter to Mr. McFadden, expressing the Board's views with regard to the other amendments considered by the Board, to be presented at a later meeting for final action.
Messrs. Collins, Stewart and Wyatt then withdrew from the meeting.

Mr. Hamlin, Chairman of the Committee on District #1, then stated that the Committee wished to recommend the reappointment of Mr. Charles H. Manchester as Class "C" Director of the Federal Reserve Bank of Boston. He stated, however, that Mr. Manchester was trustee of a mutual savings bank and expected to be elected President of the institution and that under an opinion of the Board's Counsel, dated October 16th, a trustee, officer, or employee of a mutual savings bank is legally ineligible for election, appointment, or service as a Class "B" Director or Class "C" Director of a Federal reserve bank. Mr. Hamlin also stated that one of the Class "B" Directors of the Federal Reserve Bank of Boston was connected with a mutual savings bank. The Committee submitted the following formal report:

"We have read carefully Mr. Wyatt's opinion as to the eligibility of an officer of a mutual savings bank to be a Class C Director of a Federal Reserve Bank. We have also gone over carefully the opinion of Counsel for the Boston Bank in which a different view is taken. We are satisfied that Mr. Wyatt's opinion technically is correct, and that the word "Bank" is sufficiently broad to include a mutual savings bank. We feel at the same time, however, that Congress never could have intended that an officer of a mutual savings bank should be thereby made ineligible for a Class B or Class C Directorship. This is shown by the provision of Section 8 of the Clayton Anti-trust Act which states specifically:

'That nothing in this Section shall apply to mutual savings banks not having capital stock represented by shares.'

If Congress deliberately provided that the holding of office in a mutual savings bank shall not come within the prohibitions as to interlocking directors, it would seem clearly to follow that Congress could not have intended a similar prohibition in the case of Class B and Class C directors.
"Under these circumstances, we believe the Board should ask the Secretary of the Treasury to procure an opinion from the Attorney General as to whether the Board can look through the form of the Statute to the substance. In the meantime, we suggest that the Board permit officers of mutual savings banks without capital stock to remain as directors of the Federal reserve banks, pending the receipt of such opinion, and that in the pending case, if the Board desires to reappoint Mr. Manchester, who is an officer of a mutual savings bank and desires to be President thereof with no salary, it should proceed to do so, it being understood that if the opinion of the Attorney General is in the negative a new appointment will have to be made."

After discussion, Mr. Platt moved the reappointment of Mr. Manchester as Class "C" Director of the Federal Reserve Bank of Boston for a term of three years beginning January 1, 1926, with the understanding that the question of his eligibility is to be submitted to the Attorney General and that if the Attorney General rules he is ineligible, the appointment is to be terminated, unless the appointee resigns from his connection as trustee or other officer of a mutual savings bank.

Mr. Platt's motion being put by the Chair was unanimously carried.

Mr. Hamlin then moved that the Board interpose no objection to the continuation of service by Albert C. Bowman, Class "B" Director of the Federal Reserve Bank of Boston, who is a mutual savings bank officer, on the same understanding.

Mr. Hamlin's motion being put by the Chair was unanimously carried.

Mr. Hamlin then moved that Mr. Frederic H. Curtiss be redesignated as Federal Reserve Agent and Chairman of the Board of Directors of the Federal Reserve Bank of Boston for the year 1926, with salary at the rate of $20,000 per annum.

Mr. Hamlin's motion being put by the Chair was carried, the members voting as follows:
Mr. Platt, Chairman of the Committee on District #2 then moved that Mr. Pierre Jay be reappointed a Class "C" Director of the Federal Reserve Bank of New York for a term of three years, beginning January 1, 1926.

Mr. Platt's motion being put by the Chair was unanimously carried.

Mr. Platt then moved that Mr. Jay be redesignated as Federal Reserve Agent and Chairman of the Board of Directors of the Federal Reserve Bank of New York for the year 1926, with salary at the rate of $40,000 per annum.

Mr. Platt's motion being put by the Chair was carried, the members voting as follows:

Governor Crissinger, "aye"
Mr. Platt, "aye"
Mr. Hamlin, "aye"
Mr. James, "aye"
Mr. Miller, "no"
Mr. Cunningham, "no"

Report of Committee on District #3, dated December 4th, with reference to the appointment of a Class "C" director of the Federal Reserve Bank of Philadelphia and the designation of a Federal Reserve Agent for the year 1926.

Mr. Cunningham moved that Mr. H. L. Cannon be reappointed a Class "C" Director of the Federal Reserve Bank of Philadelphia for a term of three years beginning January 1, 1926.

Mr. Cunningham's motion being put by the Chair was unanimously carried.
Mr. Hamlin then moved that Mr. R. L. Austin be redesignated as Federal Reserve Agent and Chairman of the Board of Directors of the Federal Reserve Bank of Philadelphia for the year 1926, with salary at the rate of $20,000 per annum.

Mr. Platt moved to amend Mr. Hamlin's motion by fixing Mr. Austin's salary at $18,000 per annum.

Mr. Platt's motion being put by the Chair was lost, Mr. Platt voting "aye".

Mr. Hamlin's original motion being put by the Chair was lost, the members voting as follows:

Mr. Platt, "aye"
Mr. Hamlin, "aye"
Governor Crissinger, "no"
Mr. Miller, "no"
Mr. James, "no"
Mr. Cunningham, "no"

Mr. Hamlin then moved that Mr. Austin be redesignated as Federal Reserve Agent and Chairman of the Board of Directors of the Philadelphia Bank for the year 1926 with salary at the rate of $15,000 per annum.

Mr. Hamlin's motion being put by the Chair was carried, the members voting as follows:

Mr. Platt, "aye"
Mr. Hamlin, "aye"
Mr. Miller, "aye"
Mr. Cunningham, "aye"
Governor Crissinger, "no"
Mr. James, "no"

Governor Crissinger, Chairman of the Committee on District #4 then recommended that Mr. L. B. Williams be reappointed Class "C" Director of the Federal Reserve Bank of Cleveland, and further that he be authorized to tender appointment as Class "C" director for the unexpired term of Mr. Wills, deceased, and as Federal Reserve Agent and Chairman of the Board
of Directors of the Federal Reserve Bank of Cleveland, to Mr. Leonard P. Ayers, Vice President of the Cleveland Trust Company. The Governor stated that he did not believe the services of Mr. Ayers could be secured for a salary of less than $30,000 per annum.

After full discussion, Mr. James moved that the Governor be authorized to negotiate with Mr. Ayers and to tender him appointment as Class "C" Director of the Federal Reserve Bank of Cleveland for the unexpired term ending December 31, 1926, and as Federal Reserve Agent and Chairman of the Board of Directors of the Bank for the year 1926, with salary at the rate of $30,000 per annum.

Mr. James' motion being put by the Chair was unanimously carried.

In this connection, Mr. Hamlin stated that he was of the opinion that definite instructions should be issued by the Board defining the relations of the Chairman of the Boards of Directors of the Federal reserve banks with the Governors of those institutions and stated that he was preparing a draft of such instructions for presentation to the Board.

Mr. Platt then moved that Mr. L. B. Williams be reappointed Class "C" Director of the Federal Reserve Bank of Cleveland for a term of three years, beginning January 1, 1926.

Mr. Platt's motion being put by the Chair was unanimously carried.

Report of Committee on District #5, dated December 4th, with reference to the appointment of a Class "C" director of the Federal Reserve Bank of Richmond, the designation of a Federal Reserve Agent for the year 1926 and the appointment of a director of the Baltimore Branch.

Mr. James moved that Mr. W. W. Hoxton be redesignated as Federal Reserve Agent and Chairman of the Board of Directors of the Federal Reserve Bank of Richmond for the year 1926 at a salary of $20,000 per annum.
Mr. James' motion being put by the Chair was carried, the members voting as follows:

- Governor Crissinger, "aye"
- Mr. Platt, "aye"
- Mr. Hamlin, "aye"
- Mr. James, "aye"
- Mr. Miller, "no"
- Mr. Cunningham, "no"

Mr. James then moved that Mr. Robert Lassiter be reappointed as Class "C" Director of the Federal Reserve Bank of Richmond, for a term of three years beginning January 1, 1926.

Mr. James' motion being put by the Chair was unanimously carried.

Mr. James then moved that Mr. Wm. H. Matthai be reappointed as a Director of the Baltimore Branch of the Federal Reserve Bank of Richmond for a term of three years, beginning January 1, 1926.

Mr. James' motion being put by the Chair was unanimously carried.

Report of Committee on District #11, dated December 15th, with reference to the appointment of a Class "C" director of the Federal Reserve Bank of Dallas, the designation of a Federal Reserve Agent for the year 1926, and the appointment of directors for the Houston and El Paso Branches.

Mr. James moved that Mr. C. C. Walsh be reappointed as Class "C" Director of the Federal Reserve Bank of Dallas for a term of three years beginning January 1, 1926.

Mr. James' motion being put by the Chair was unanimously carried.

Mr. James then moved that Mr. Walsh be redesignated as Federal Reserve Agent and Chairman of the Board of Directors of the Dallas Bank for the year 1926, at a salary of $20,000.

Mr. Miller moved as a substitute that Mr. Walsh be redesignated at a salary of $18,000 per annum.
Mr. Miller's substitute motion being put by the Chair was lost, the members voting as follows:

Mr. Platt, "aye"
Mr. Miller, "aye"
Governor Crissinger, "no"
Mr. Hamlin, "no"
Mr. James, "no"
Mr. Cunningham, "not voting"

Mr. James' original motion being put by the Chair was carried, the members voting as follows:

Governor Crissinger, "aye"
Mr. Platt, "aye"
Mr. Hamlin, "aye"
Mr. James, "aye"
Mr. Miller, "no"
Mr. Cunningham, "not voting"

Mr. James then moved that Mr. C. M. Newman be appointed a director of the El Paso Branch of the Federal Reserve Bank of Dallas for a term of three years, beginning January 1, 1926.

Mr. James' motion being put by the Chair was unanimously carried.

Mr. James then moved that Mr. R. M. Farrar be reappointed as director of the Houston Branch of the Federal Reserve Bank of Dallas for a term of three years, beginning January 1, 1926.

Mr. James' motion being put by the Chair was unanimously carried.

The meeting adjourned at 4:50 p.m.