

A meeting of the Federal Reserve Board was held in Washington on Friday, July 19, 1935, at 12:00 o'clock noon.

PRESENT: Mr. Eccles, Governor  
 Mr. Thomas, Vice Governor  
 Mr. Hamlin  
 Mr. Miller  
 Mr. James  
 Mr. Szymczak

Mr. Morrill, Secretary  
 Mr. Carpenter, Assistant Secretary

The Board acted upon the following matters:

Letter dated July 18, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated July 17 from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and July 18 from Messrs. Powell, McAdams and Sargent, Secretaries of the Federal Reserve Banks of Minneapolis, Kansas City and San Francisco, respectively, all advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Letter dated July 17, 1935, approved by five members of the Board, to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to Mr. McClure's letter of April 30, 1934, transmitting the request of the 'State Bank of Wheatland', Wheatland, Wyoming, for permission in accordance with the provisions of membership condition numbered 8 to invest approximately \$16,000 in a building to be used as banking quarters, and the Board's letter of May 9, 1934, advising that no objection would be interposed to such an investment in an amount not to exceed \$16,000.

"The report of examination as of May 14, 1935, indicates that since the examination as of April 7, 1934, the bank has expended

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"approximately \$21,650 for a bank building and that unpaid bills on account of the building amount to approximately \$1,000. The recent report of examination of the bank shows capital and surplus aggregating \$100,000 and a net sound capital structure (exclusive of nonbook assets) of \$171,700 as compared to deposits of \$553,500 and banking house carried at \$21,657 and furniture and fixtures at \$900. In order that there may be no question raised in the future as to compliance with the condition of membership by reason of the additional investment in banking quarters, this is to advise you the Board interposes no objection to an increase in the bank's investment in banking quarters provided the total investment in banking quarters does not exceed \$25,000.

"The Board has noted the examiner's comments that the bank has agreed to depreciate its bank building and furniture and fixtures at the annual rate of 2% and 10%, respectively.

"It is assumed that you will forward advice in due course regarding the action taken in connection with matters of criticism reflected in the report of examination of the bank as of May 14, 1935."

Approved.

Letter to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of July 9, 1935, inclosing a copy of the letter dated July 8, 1935, from Gardner B. Perry, vice president of 'Northwest Bancorporation', Minneapolis, Minnesota, in which a limited voting permit was requested, authorizing Northwest Bancorporation to vote stock of 'The First National Bank of Belle Plaine', Belle Plaine, Minnesota, for the purpose of placing the bank in voluntary liquidation and transacting other matters connected with, or incidental to, the liquidation. The applicant's letter also stated that it was proposed to pay off the depositors in full and that the minority shareholders of the bank were agreeable to the plan.

"The Board has considered this request and authorizes the issuance of a voting permit which shall entitle Northwest Bancorporation to vote the stock which it owns or controls of The First National Bank of Belle Plaine, Belle Plaine, Minnesota, for the following limited purposes:

"At any time prior to October 1, 1935

- (1) To place The First National Bank of Belle Plaine in voluntary liquidation, and
- (2) To take such further action as is necessary to effect such liquidation;

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"provided that all action taken shall be satisfactory to the Comptroller of the Currency.

"Please have the permit authorized herein prepared by counsel for the Federal Reserve Bank of Minneapolis in the usual form. It will be appreciated if you will mail to the Board, for its records, two executed copies of the permit issued by you under the authorization contained in this letter."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to the letter dated July 12, 1935, from Mr. Gibbs Lyons, Deputy Comptroller of the Currency, with which was inclosed a copy of a letter to you, dated July 2, 1935, from the City National Bank and Trust Company, Oklahoma City, Oklahoma, regarding the method of computing interest on savings deposits.

"In his letter, Mr. Lyons asked to be advised concerning the position of the Federal Reserve Board regarding this matter. You are advised that the Federal Reserve Board has not prescribed any method of computing interest on savings deposits. The only requirement of the Board on this point is that contained in section V (c) (1) of Regulation Q which provides that no member bank shall pay interest accruing after January 31, 1935, on any savings deposit 'at a rate in excess of  $2\frac{1}{2}$  percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed'. If the interest paid on the amount in a savings deposit does not exceed  $2\frac{1}{2}$  percent per annum, compounded quarterly, for the period during which the amount was actually on deposit, the provisions of the regulation are complied with, regardless of the basis of computation. Furthermore, as stated in footnote 9 of Regulation Q interest may be compounded at other than quarterly intervals provided the aggregate amount of interest so compounded does not exceed the aggregate amount of interest which would be paid on the deposit at a rate of  $2\frac{1}{2}$  percent per annum, compounded quarterly.

"It is noted that the City National Bank and Trust Company states that its correspondent bank feels that the payment of interest on amounts in a savings deposit subject to 31 or 60 days notice but as to which no notice had actually been required or given constituted the payment of interest on a deposit payable on demand, unless interest was paid only on the smallest amount maintained in the account during the interest computation period.

"In this connection, your attention is invited to section V (d) of Regulation Q which reads as follows:

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"Interest at a rate not exceeding that prescribed in subsection (c) of this section may be paid upon savings deposits as defined above with respect to which notice of intended withdrawal has not actually been required or given."

"It is believed that the above provisions of Regulation Q will answer the questions presented in the letter from the national bank."

Approved.

Letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter dated July 12, 1935, with which was inclosed a copy of a letter bearing the same date written by you to Mr. R. M. Heyman, Cashier of The Menard National Bank, Menard, Texas, regarding the rate of interest which may be paid by member banks of the Federal Reserve System on time and savings deposits.

"Although the Federal Reserve Board has no comments regarding your reply to Mr. Heyman's letter, it is suggested that you may wish to call his attention to paragraph (v)(8) of section 101 of the proposed Banking Act of 1935 (H. R. 7617), in the form in which it was reported by the Senate Committee on Banking and Currency, which reads as follows:

'Insured State nonmember banks (other than savings banks, mutual savings banks, Morris Plan banks and other incorporated banking institutions engaged only in a business similar to that transacted by Morris Plan banks) shall be subject to all the provisions of this Act and regulations thereunder relating to the withdrawal and payment of deposits, and the payment of interest thereon, which are applicable to insured member banks. For each violation of any provision of this paragraph the offending bank shall be subject to a penalty of not more than \$100, recoverable by the Corporation for its use.'

"It is, of course, impossible to determine at this time whether the above provision will be enacted into law, but it is believed that if the provision should be enacted it would eliminate the competitive disadvantage to member banks mentioned in Mr. Heyman's letter."

Approved.

Letter to Mr. Hale, Cashier of the Federal Reserve Bank of San Francisco, reading as follows:

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"This refers to your letter dated July 3, 1935, regarding the question whether member banks may pay interest at the maximum rate prescribed in Regulation Q from the first days of January and July on deposits made on any of the first ten days of such months, respectively.

"You stated that, prior to passage of the Banking Act of 1933, such practice had been rather common among banks in your Federal Reserve district, and that a number of sectional clearing houses in your district are now desirous of following this practice and have requested that you obtain a ruling from the Board regarding the matter. You also stated that the banks do not desire to have the privilege of paying interest from any day other than the day of deposit except during the months of January and July, and that the banks have pointed out that the theoretical excess of interest would be less during the course of a year in following this practice than in following that prescribed in Regulation Q as only a possible 20 days would be involved under such practice as compared with a possible 60 days under the Board's Regulation.

"As you are aware, paragraph (4) of subsection (c) of section III of the Federal Reserve Board's Regulation Q provides as follows:

'A member bank may pay interest on a time deposit received during the first five days of any calendar month at the maximum rate prescribed in paragraph 1 of this subsection calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a time deposit under the provisions of this regulation, whichever shall first occur.'

A similar provision relating to savings deposits is contained in paragraph (4) of subsection (c) of section V of Regulation Q.

"The matter of permitting banks to pay interest from the first day of the month on deposits received during the first few days of such month was carefully considered by the Federal Reserve Board at the time the last revision of Regulation Q was issued and, at that time, it was decided that the first five days of the month was a sufficient period for the acceptance of deposits on which interest could be paid at the maximum rate from the first day of the month. The Board is of the opinion that the provisions of Regulation Q do not permit the payment of interest at the maximum rate from the first days of January and July on deposits made after the fifth day of such calendar months, even though the bank does not pay interest from the first day of the month on deposits received after the first day of the month during any month other than January or July. The fact that the theoretical excess of interest might be less under such practice than under that prescribed by the Board's Regulation Q, does not, in the opinion of the Board, warrant a different conclusion.

"However, interest at a rate less than the maximum prescribed in Regulation Q may be paid from the first day of the month on a

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"deposit which is actually received on any day thereafter, provided that the amount of interest paid does not exceed 2½ percent per annum, compounded quarterly, for the period from the date on which the deposit was actually received by the bank until actually withdrawn."

Approved.

Letter dated July 17, 1935, approved by five members of the Board, to Honorable Gerald P. Nye, Chairman, Special Committee Investigating the Munitions Industry, United States Senate, reading as follows:

"Reference is made to your letter of February 12, 1935, Miscellaneous Request No. 22, which was presented at the office of the Secretary of the Board on July 1, 1935 by Miss Burns, an investigator for your Committee, and which requested that she be given an opportunity to study any records that the Board might have dealing with private and public financing of loans to the Allies from 1915 to 1918, inclusive.

"Records described in lists submitted by Miss Burns have been made available to her and she has requested that she be given an opportunity to make copies of any of these records, including entries in the minutes of the Board regarding them, in which your Committee is interested. She has stated that this request is made on behalf of your Committee with the understanding that none of the material copied will be given out by your Committee or any member thereof or made public in any way without the prior written approval of the Federal Reserve Board, and the records of the Board on the matters referred to are being made available to Miss Burns with this understanding."

Approved.

There were then presented the following applications for changes in stock of Federal reserve banks:

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 2.</u>		
The Clifton National Bank, Clifton, New Jersey	120	
Merchants National Bank in Plattsburg, Plattsburg, New York	<u>360</u>	480
<u>District No. 7.</u>		
The First National Bank of Mackinaw, Mackinaw, Illinois	9	

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<u>Applications for ADDITIONAL Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 7. (Continued)</u>		
The Merchants National Bank of Terre Haute, Terre Haute, Indiana	<u>2</u>	11
<u>District No. 11.</u>		
Commercial National Bank in Shreveport, Shreveport, Louisiana	30	30
<u>District No. 12.</u>		
First National Bank in Reno, Reno, Nevada	72	
The Valley National Bank of Milton, Milton, Oregon	4	
The West Side National Bank of Yakima, Yakima, Washington	<u>6</u>	<u>82</u>
	Total	603

Approved.

Thereupon the meeting adjourned.

C. R. Mowell  
Secretary.

Approved:

[Signature]  
Governor.