

A meeting of the Executive Committee of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 2, 1935, at 2:30 p. m.

PRESENT: Mr. Thomas, Vice Chairman
Mr. James
Mr. Szymczak

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

The Committee acted upon the following matters:

Telegram to Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Your telegram. Board approves for your bank rate of $2\frac{1}{2}\%$ per annum on advances to member banks under section 10(b) of Federal Reserve Act as amended by Banking Act of 1935, effective October 3, 1935, and notes with approval the establishment without change of the other rates of discount and purchase in effect at your bank."

Approved unanimously.

Telegrams dated October 2, 1935, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, and Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, both advising of the establishment without change by their respective banks today of the rates of discount and purchase in effect at the banks.

Noted with unanimous approval.

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

"Reference your letter of September 26, 1935 inclosing letter of that date from 'Northwest Bancorporation' requesting a limited voting permit entitling that corporation to vote stock of Iowa-Des Moines National Bank & Trust Company, Des Moines, Iowa. On the basis of facts stated in the latter letter and in

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"the absence of any further facts indicating that Northwest Bancorporation controls any shares of such bank's stock other than 9,769-5/6 shares which it owns, the Board concurs in your opinion that Northwest Bancorporation is not a holding company affiliate of such bank and that the voting permit is not necessary."

Approved unanimously.

Letter to Mr. Howard H. Ruark, Cashier of The Salisbury National Bank, Salisbury, Maryland, reading as follows:

"This refers to your letter dated September 23, 1935 addressed to the Comptroller of the Currency, which has been referred to the Board of Governors of the Federal Reserve System for reply. In your letter you ask to be advised whether the Board contemplates a reduction in the maximum rate of interest payable by member banks on time and savings deposits to 2% per annum.

"Section 324 of the recently enacted Banking Act of 1935 incorporates certain changes in section 19 of the Federal Reserve Act with regard to the prescribing of rates of interest payable by member banks on time and savings deposits. The pertinent portion of section 19 of the Federal Reserve Act, as amended, reads as follows:

'The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts.'

"The Board now has in the course of preparation a revision of its Regulation Q relating to the payment of deposits and interest thereon by member banks and it may be necessary, in view of the changes which have been made in the law, to make some modification of the maximum rate of interest payable on certain types of time or savings deposits or by certain member banks. The Board is unable to advise you at this time, however, as to what changes, if any, may be made.

"Other than such changes in the maximum rate as may be necessary in order to conform to the changes in the law above mentioned, the Board does not at this time contemplate the making of a further reduction in the maximum rate of interest payable by member banks on time or savings deposits.

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"You also ask to be advised whether the Federal Deposit Insurance Corporation now has authority to fix a maximum rate which may be paid by insured nonmember banks. Section 12B(v)(8) of the Federal Reserve Act, as amended by section 101 of the Banking Act of 1935, gives the Federal Deposit Insurance Corporation authority to establish maximum rates of interest for insured nonmember banks similar to the authority conferred upon the Board with regard to member banks by section 19 of the Federal Reserve Act. A copy of the Banking Act of 1935 is inclosed herewith for your convenience.

"The Board is unable to advise you as to what action the Federal Deposit Insurance Corporation may contemplate taking with regard to the rate of interest payable by nonmember insured banks upon time and savings deposits."

Approved unanimously.

Letter to Mr. S. H. Mamm, Vice President of the First National Bank, Louisville, Kentucky, reading as follows:

"This refers to your letter dated September 27, 1935, in which you ask to be advised whether your bank can lawfully pay interest after maturity on certain time deposits evidenced by certificates of deposit which were not presented for renewal until several months after maturity.

"It is understood from your letter that a customer of your bank holds three time certificates of deposit which matured on May 17, 1935, April 18, 1935, and July 9, 1935, respectively. The depositor states that he overlooked the maturity dates of these certificates and now wishes to have them renewed and to have the bank pay him interest on the deposits evidenced by such certificates from their respective maturity dates until the present, providing he takes out new six months' certificates of deposit covering the former deposits.

"You ask to be advised whether your bank can legally date these certificates back or pay the depositor interest on the same to the date of renewal.

"Section 19 of the Federal Reserve Act provides that no member bank shall pay any interest on any deposit which is payable on demand, with certain exceptions not here pertinent. It is the opinion of the Board that after the maturity of a time deposit, the funds constituting such deposit become a deposit payable on demand and that no interest may be paid on such deposit for any period after such date. This view is stated in section III(e) of Regulation Q which provides

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"as follows:

'(e) No interest after maturity or expiration of notice. - After the date of maturity of any time deposit, such deposit is a deposit payable on demand, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit, such deposit is a deposit payable on demand and no interest may be paid on such deposit for any period subsequent to the expiration of such notice.'

"Accordingly, because of the above-mentioned provisions of the statute and of the Board's regulation, your bank may not legally pay interest on such deposits for the period intervening between the respective maturity dates of the certificates and the date on which renewal certificates are actually issued, regardless of whether such renewal certificates are dated back to the respective maturity dates of the original certificates.

"If you have any further question with regard to this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Agent at the Federal Reserve Bank of St. Louis."

Approved unanimously.

Letter to Mr. Thomas E. Kilby, President of the Kilby Car and Foundry Company, Anniston, Alabama, reading as follows:

"Reference is made to your letter of September 12, to Mr. Eccles, regarding the rejection by the Federal Reserve Bank of Atlanta of your application for an additional advance of \$50,000 under the terms of Section 13b of the Federal Reserve Act.

"We are informed by the Federal Reserve Bank of Atlanta, in response to our request for information, that a loan of \$50,000 was made to you October 15, 1934, upon which there is an unpaid balance of \$36,250, and that the collateral offered to the Federal Reserve Bank as security for the unpaid balance of the old loan and the additional advance requested was to consist of 1300 shares of Preferred Stock of the Alabama Pipe Company and 5,340 shares of the Common Stock of that Company without par value, all of which except 500 shares of Preferred Stock is now pledged as collateral on the original loan. Both the Industrial Advisory Committee and the Federal Reserve Bank gave careful and repeated consideration to your application for an additional advance and

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"came to the conclusion that they would not be justified in approving the loan for the reason that it was improbable that your earnings would be such as to retire the indebtedness in favor of the Reserve bank within a period of five years or less and at the same time meet your obligations to other creditors; that if recourse to the collateral became necessary the Reserve bank might face a very substantial loss; and that, accordingly, it did not appear that the loan could be made on a reasonable and sound basis, as Section 13b of the Federal Reserve Act requires.

"As you are aware, the Federal Reserve banks have authority under the law to make industrial loans direct to borrowers only when in their opinion such loans can be made on a reasonable and sound basis. They, therefore, have no choice but to disapprove those loans which in their judgment fail to satisfy this requirement of the law.

"From a review of the correspondence in this case it would not appear that the Atlanta Federal Reserve Bank has violated either the letter or the spirit of the law, but on the contrary it is evident that both the Industrial Advisory Committee and the Executive Committee of the bank have endeavored to reach a fair and reasonable decision on each industrial loan application.

"We regret that favorable action could not be taken on your application, but since it was given careful analysis and consideration by the Industrial Advisory Committee and the Federal Reserve Bank before they concluded that it could not be approved, there appears to be no ground for action by the Board in the matter."

Approved unanimously.

Letter to Mr. W. Lane Shannon, Moorestown, New Jersey, reading as follows:

"Your letter of September 20, addressed to the Securities and Exchange Commission, has been referred to the Board of Governors of the Federal Reserve System.

"Regulation T of the Board, which applies to the extension and maintenance of credit by members of national securities exchanges and by brokers and dealers transacting a business in securities through the medium of such members, does not at present prescribe any margin requirements on short sales. It does provide, however, in section 3(f) that if a broker is carrying an account for a customer in which any credit is extended or maintained for the purpose of purchasing or carrying securities, he shall, in calculating the

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"adjusted debit balance' of the account for margin purposes, include therein the amount of margin which he customarily requires on any securities sold short in the account. As bearing upon the amount of margin which brokers customarily require, we understand that the Committee on Business Conduct of the New York Stock Exchange, on August 2, 1933, issued a ruling applying to members of that exchange and reading in part as follows: 'The minimum margin which must be required on short commitments shall be ten points ...'

"Regulation T does not require the broker to demand from the customer the amount of any loss on an open short commitment, but there is nothing in the regulation which prevents the broker from demanding such amount.

"The maximum loan value of Otis Steel Company common stock at the present time is 55 percent of its market value, so that at a price of 16 the maximum loan value of 100 shares would be \$880."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System has received your letter of September 18 enclosing a copy of a letter addressed to the Federal Reserve Bank of Minneapolis by Mr. H. R. Selover, President of the Minneapolis-St. Paul Stock Exchange.

"Mr. Selover asks whether his exchange by authorization of its board of governors may grant an extension of time within which a broker may obtain payment for a security the purchase of which is a bona fide cash transaction within the meaning of section 6, as amended, of Regulation T, if the broker is a member of his exchange and also a member of another exchange and the security is registered on the other exchange but not on his exchange.

"The answer to Mr. Selover's question is in the affirmative, if the person or persons granting the extension constitute a committee having jurisdiction over the business conduct of the members of the exchange.

"It is assumed from the facts submitted that there is no difference of opinion between the respective committees of the two exchanges as to whether an extension should be granted. Reference is made to ruling No. 40 of the Board interpreting Regulation T. The Board by that ruling intended to make clear that such a committee could grant, within

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"the limitations of section 6, extensions of time in connection with transactions, whether on that exchange or not; imposing, however, on the committee the responsibility for compliance with section 6. The purpose of the words 'having jurisdiction over the business conduct of its members' was to identify the body which the Board authorized to grant extensions rather than to impose on that body any limitation as to its jurisdiction over the creditor or the transaction in question."

Approved unanimously.

Letter to Mr. Zurlinden, Deputy Governor of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter dated September 20, 1935, regarding advances under section 10(b) of the Federal Reserve Act, as amended by section 204 of the Banking Act of 1935.

"In view of the provisions that such advances may be made 'under rules and regulations prescribed by the Board of Governors of the Federal Reserve System', you present the question whether such advances can be made prior to the issuance of regulations upon the subject by the Board. As you know, the Board is now engaged in a revision of Regulation A which deals with this subject, and it is hoped that such regulation can be issued in the near future. However, pending the promulgation of such regulation, the Board will not object to the making by Federal Reserve banks of advances under section 10(b) which are in conformity with the provisions of such section.

"You also ask to be advised as to the proper basis for establishment of the rate to be charged on advances under section 10(b). Prior to the enactment of the Banking Act of 1935, section 10(b) contained a provision regarding the rate on advances which was the same as that contained in the present section except that the rate was to be not less than 1 per cent higher, instead of not less than one-half of 1 per cent higher, than the highest discount rate in effect at the Federal Reserve bank.

"Section 10(b) was first enacted on February 27, 1932, and at that time the only discount rates in effect were those applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act. However, on July 21, 1932, Congress amended section 13 by adding the third paragraph thereof providing for discounts of eligible paper for individuals, partnerships, and corporations. On March 9, 1933, Congress again amended section 13 by adding the last paragraph thereof providing for loans to individuals, partnerships, and corporations on the security of direct obligations of the United States. Later, on June 19, 1934, section 13(b) was

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"enacted providing for loans to industry. Although discounts under the provisions of these later acts have been made at a rate higher than that applicable to discounts for member banks under sections 13 and 13a, it was not believed that Congress intended in the enactment of these provisions to bring about an increase in the rate applicable to loans under section 10(b) and, accordingly, the words 'the highest discount rate in effect' have uniformly been interpreted during all the period in which section 10(b) has been in effect as meaning the highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a and not the highest discount rate applicable to loans under the provisions of the third or last paragraph of section 13 or the provisions of section 13(b).

"When the substance of section 10(b) was reenacted in permanent form by section 204 of the Banking Act of 1935, it is believed that Congress intended to adopt the construction which had previously been placed upon such section. Accordingly, the Board is of the opinion that the rate at which advances may be made under the provisions of section 10(b) shall be not less than one-half of 1 per cent per annum higher than the highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act in effect at the Federal Reserve bank making the advance on the date of the note evidencing such advance.

"I sincerely hope that the above is the information which you desire, and that you will feel free to call upon me at any time when you think I may be of assistance."

Approved unanimously.

Letter to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"In your letter of September 20, 1935, with reference to the last sentence of the Board's letter of September 16, 1935 (X-9318), you ask for confirmation of your understanding that that sentence is not to be interpreted as implying that relationships which were not prohibited by the Clayton Act immediately prior to the enactment of the Banking Act of 1935 may not lawfully continue until February 1, 1939.

"Your understanding in this connection is correct, since, as indicated in section II(c) of the tentative draft of Regulation L which was forwarded to you with the Board's letter of September 13, 1935 (X-9317), any relationship involving a member bank, which was in existence on August 23, 1935, and

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"which at that time was lawful under the Clayton Act either because it was authorized by a permit then in effect or because it was otherwise not subject to the prohibitions contained in the Clayton Act prior to its amendment by the Banking Act of 1935 on that date, is not prohibited until February 1, 1939, in view of the provisions of the paragraph immediately following the numbered paragraphs in section 8 as amended, even though such relationship would otherwise be prohibited by the Clayton Act as amended."

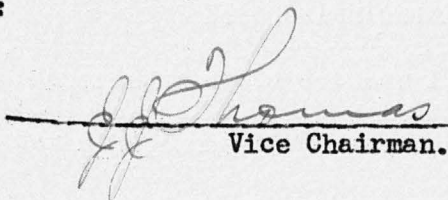
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.