

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 9, 1936, at 11:20 a. m.

PRESENT: Mr. Eccles, Chairman  
 Mr. Thomas, Vice Chairman  
 Mr. Hamlin  
 Mr. Miller  
 Mr. James (first part of meeting)  
 Mr. Szymczak

Mr. Morrill, Secretary  
 Mr. Bethea, Assistant Secretary  
 Mr. Carpenter, Assistant Secretary  
 Mr. Clayton, Assistant to the Chairman  
 Mr. Wyatt, General Counsel  
 Mr. Goldenweiser, Director of the Division  
 of Research and Statistics  
 Mr. Parry, Chief of the Division of Security  
 Loans  
 Mr. Woodlief Thomas, Assistant Director of  
 the Division of Research and Statistics  
 Mr. Solomon, Assistant Counsel

Chairman Eccles stated that the special matter for consideration at this meeting was the draft of Regulation "U" with regard to loans by banks for the purpose of purchasing or carrying equity securities registered on a national securities exchange, which had been prepared by the staff and submitted to the Board by Mr. Parry with a memorandum dated December 20, 1935, in which he recommended that the draft as prepared, accompanied by an explanatory statement, be sent to the Federal reserve banks for consideration and criticism. The memorandum pointed out that the draft of the regulation provided that margin requirements should be prescribed by the Board from time to time in supplements, in accordance with the policy followed by the Board in Regulation "Q", and that, since Regulation "U" was closely related to Regulation "T", the proposed supplement to Regulation "U" prescribed for registered equity securities

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the same margin requirements as were in force for brokers and dealers under Regulation "T" with respect to such securities. The memorandum stated that whether the supplement or any supplement should be included in the draft sent out for criticism was a question which should have special consideration by the Board, and that Mr. Parry's view was that, unless the Board wished at this time to change the margin requirements in Regulation "T", it would be better to include the proposed supplement in the tentative draft of Regulation "U".

Mr. Miller pointed out that the issuance by the Board of a regulation covering loans by banks for the purpose of purchasing or carrying securities was optional with the Board under the law, and stated that he felt that to send a draft of a regulation to the Federal reserve banks for comment might be taken as an indication that the Board felt there was undue use being made of credit and for that reason was preparing to issue the regulation. He added that the law as amended gave the Board a number of powers which it might use to prevent the abuse of credit; and that he felt that the Board, before issuing Regulation "U", should carefully consider its entire program relating to the control of credit.

At this point, Mr. James withdrew from the meeting.

Chairman Eccles stated that he felt the problem before the Board, in connection with Regulations "T" and "U", was one of controlling security speculation and not one involving a general restriction of credit, as there was no need to restrict credit for commercial

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purposes. He referred to the activity in the stock market during recent months and stated that he felt that the Board should be ready to take action to increase the margin requirements specified in Regulation "T" in the event the present activity in the stock market increased.

Mr. Thomas expressed the opinion that the control of credit for speculative purposes presented a problem separate and distinct from the general credit structure of the country and should be treated separately. He said that stock market activity in the past had resulted in concern for the reason that the Board did not have power to handle the matter except in a way that would affect credit generally, and that, as the Board now had authority to prescribe margin requirements which would not affect materially the other elements in the credit structure, he felt the Board should prepare Regulation "U" for issuance whenever necessary. In connection with the formula for margin requirements that should be prescribed in the regulation, he expressed the opinion that the statutory formula should be abandoned and a simple formula adopted which would prevent the use of unrealized profits in an account as margin for the purchase of additional securities.

At the request of the Chairman, Mr. Parry discussed the objections which had been raised by brokers and dealers to the statutory formula for margin requirements as contained in Regulation "T", and stated that among the practical possibilities with regard to margin requirements to be prescribed in Regulation "U" or a revision of Regulation "T" were, (1) adhere to the statutory formula, (2) base margin

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requirements on a fixed percentage of the current market price of the security, or (3) base margin requirements on a fixed percentage of the lowest market price of the security during a stated period immediately prior to the first day of the calendar month. In connection with his discussion of the possible bases for margin requirements to be prescribed in the regulations Mr. Parry submitted a proposed alternate form of supplement to Regulation "U" which would prescribe margin requirements based on a fixed percentage of the lowest market price of the security during the period of 12 calendar months immediately prior to the first day of the current month.

There was a detailed discussion of the possible bases upon which margin requirements could be fixed and of the desirability of sending the draft of Regulation "U" to the Federal reserve banks for their comments and criticisms.

Chairman Eccles inquired of Mr. Parry as to his opinion with regard to increasing the margin requirements specified in Regulation "T" and Mr. Parry replied that he felt the margin requirements prescribed in the regulation should be increased immediately upon evidence of increased activity in the market. Mr. Eccles then referred to the possible effects of the recent decision of the United States Supreme Court in declaring unconstitutional the Agricultural Adjustment Act, particularly as regards activity in the stock market, and stated that he felt the Board should hold itself in readiness to increase the margin requirements prescribed in Regulation "T" whenever conditions indicated

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that such action was desirable, and that in the meantime the draft of Regulation "U" should be sent to the Federal reserve banks for their comments and criticisms.

Mr. Szymczak suggested that when the draft of regulation was sent to the Federal reserve banks it might be accompanied by both the draft of supplement submitted with Mr. Parry's memorandum of December 20, 1935, which contains the statutory formula for margin requirements and the draft of an alternate form of supplement submitted by Mr. Parry at this meeting.

At the conclusion of the discussion, Mr. Thomas moved that Mr. Parry be requested to prepare a letter to the Federal reserve agents transmitting the draft of Regulation "U", the accompanying explanatory statement prepared by Messrs. Goldenweiser and Parry under date of December 23, 1935, and the two drafts of supplement to Regulation "U" referred to above; the letter to contain the statement that the draft, explanatory statement and supplements were being considered by the Board and before taking action thereon were being sent to the Federal reserve banks for their criticisms and suggestions, and that if any formula for margin requirements different from the statutory formula were adopted for Regulation "U", Regulation "T" would be amended to include the same formula.

Mr. Parry suggested that if the draft of supplement to Regulation "U" submitted by him at this meeting were sent to the Federal reserve banks with the draft of regulation, the length of the period used for determining the lowest market price be not stated.

Mr. Thomas amended his motion in accordance with Mr. Parry's suggestion.

The motion as amended was put by the chair and was carried unanimously.

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Thereupon Messrs. Parry, Goldenweiser and Woodlief Thomas left the meeting.

Mr. Morrill referred to the consideration given at the meeting of the Board on December 11, 1935, to the request of the special Senate Committee investigating the munitions industry that the Board release to the committee copies of certain documents contained in the Board's files. He stated that he had received a telephone call from an investigator for the committee this morning requesting again that the documents be released and that a further telephone call had just been received requesting the release of five of the documents for use by the Committee this afternoon. It was pointed out that the request of the committee was dated November 12, 1935, and Mr. Clayton suggested that, in view of the length of time the matter had been pending before the Board, the committee should be advised that the Board approved the release to the committee of all of the material requested.

Mr. Miller moved that the committee be advised that the Board released to the committee all of the documents specified on the list which accompanied the committee's letter of November 12, 1935.

Carried unanimously.

It was stated that in accordance with the action taken at the meeting of the Board on December 26, 1935, a draft of reply had been prepared to the letter received from Senator Glass dated December 16, 1935, with regard to the schedule of maximum rates of interest prescribed under Regulation "Q" and that copies of the draft had been furnished to all members of the Board.



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It was agreed that the members would consider the draft, and that it should be taken up at a later meeting of the Board.

At this point Messrs. Wyatt and Solomon left the meeting and consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letters to Messrs. Curtiss and Austin, Chairmen of the Federal Reserve Banks of Boston and Philadelphia, respectively, stating that the Board approves the establishment without change by the Boston bank on January 7, and by the Philadelphia bank on January 8, 1936, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Bond, in the amount of \$50,000, executed under date of December 30, 1935, by Mr. Albert W. Mills as alternate for the Federal Reserve Agent or Assistant Federal Reserve Agents at the Federal Reserve Bank of Minneapolis.

Approved unanimously.

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

"Receipt is acknowledged of your letter of January 3, 1936, advising that, because of the critical illness of your mother, it was necessary that you leave Atlanta for Mississippi, and it is noted without objection by the Board that you have designated Mr. J. R. McCravey, Jr., Acting Assistant Federal Reserve Agent, to sign such reports and other documents as may be necessary during your absence.

"It will be appreciated if you will advise the Board as soon as you return to the bank."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System notes from your letter of January 3, 1936, that the board of directors of your bank, at its meeting on January 2, selected Mr. Walter W. Smith, President of the First National Bank in St. Louis, Missouri, as a member of the Federal Advisory Council representing the Eighth Federal Reserve District during the year 1936, and the Board approves the allowance of \$1,000 per annum, in lieu of fees and actual expenses, fixed by your directors for Mr. Smith."

Approved unanimously.

Letter to Mr. Frank Warner, Secretary, Iowa Bankers Association, Des Moines, Iowa, reading as follows:

"This refers further to your letter of October 24, 1935, submitting to the Board two forms of certificates of deposits prepared by the legal department and officers of your association and requesting to be advised whether such forms conform with any new regulations promulgated by the Board under the provisions of the Banking Act of 1935.

"The forms of time certificates of deposit submitted by you appear to be identical with those submitted with your letter of July 12, 1934, except that it is noted that Form No. 22 has been amended to comply with a suggestion made by the Board at that time. It will be recalled that in a telegram dated July 18, 1934, the Board stated that the forms then submitted, if so amended, would not be inconsistent with the applicable provisions of Regulation Q.

"In order to conform to changes in the law made by the Banking Act of 1935, Regulation Q has recently been revised to become effective January 1, 1936, and there is inclosed herewith a copy of the regulation as so revised. While a number of modifications have been made in the revised regulation, no substantial change has been made in the definition of 'time certificates of deposit' set forth in subsection (c) of section 1 of the inclosed regulation. In the circumstances, therefore, it is the view of the Board that the forms of time certificates of deposit which you now submit will not be inconsistent with the applicable provisions of Regulation Q as revised and the Board will offer no objection to the classification of deposits evidenced by such certificates as time



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"deposits for the purposes of that regulation."

Approved unanimously.

Letter to Honorable Alben W. Barkley, United States Senate, reading as follows:

"This refers to your letter of January 3, 1936, in which you state that you have received letters from small banks in Kentucky with regard to the provisions of the Board's Regulation Q relating to the absorption of exchange or collection charges. The provision to which the banks that have written you doubtless refer is the definition of interest which, in the regulation as revised to become effective January 1, 1936, a copy of which is inclosed, contained the statement that the term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses. However, while the other provisions of the revised Regulation Q became effective January 1, 1936, the Board has deferred the effective date of the provisions defining interest, including the statement with respect to the absorption of exchange and collection charges, pending action by the Federal Deposit Insurance Corporation on its regulations relating to the payment of interest on deposits by insured nonmember banks.

"As you know, the law prohibits a member bank from paying interest directly or indirectly by any device whatsoever upon any deposit payable on demand. The absorption by a member bank of exchange and collection charges incurred in connection with the collection of items received on deposit from its customers, however, is merely an indirect method or device of paying interest. An exchange or collection charge incurred by a bank in collecting a check for a customer must either be paid and absorbed by the bank or passed back to the depositor. If it absorbs such a charge it will in effect be paying interest on the balance of the depositor because such absorption makes it unnecessary for the depositor to pay an amount which he would otherwise have to pay in order to have his check collected. For a customer having a large balance and depositing a large number of checks drawn on out-of-town banks, the absorption of such charges means a saving of a large sum of money and it is evident that other things being equal a depositor will place his money with a bank which absorbs such exchange and collection charges rather than with a bank which passes them back to the customer. Such competition between banks through payments to depositors appears to be just what the law intended to prevent.

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"While the regulation in the form inclosed herewith would require that an exchange or collection charge involving an out-of-pocket expense to a member bank in collecting a check drawn on another bank be passed back to the depositor and would not permit the member bank to absorb such expense, it is to be observed that there is nothing in the regulation which would forbid any bank to impose a charge for paying a check drawn on it or for collecting a check drawn on another bank. The regulation does not make any change in the provisions regarding the making of exchange and collection charges by banks, which are contained in section 13 of the Federal Reserve Act and which have not been amended for a number of years.

"As above stated, however, the provisions of the revised Regulation Q defining the term 'interest' have not as yet become effective, but have been deferred."

Approved unanimously.

Telegram to Governor Martin of the Federal Reserve Bank of St.

Louis, reading as follows:

"Referring your January 6 telegram, it is believed that to change words 'a maximum of' in last sentence of inclosure in Board's letter of January 4 (on the subject of industrial loans under Section 13(b) of the Federal Reserve Act) to 'not less than' would not convey the desired thought and it is suggested that instead the words 'share of any loss limited to 20 percent of the total' be substituted for the words 'loss limited to a maximum of 20 percent'."

Approved unanimously.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve

Bank of New York, reading as follows:

"The Board has heretofore granted to Mr. John Edwards Barbour a Clayton Act permit covering his services as director of The Paterson National Bank and as director of Paterson Savings Institution, both of Paterson, New Jersey. Under date of June 14, 1935, Mr. Dillistin advised the Board that Mr. Barbour was also serving as vice president of the national bank.

"Under the circumstances, Mr. Barbour's service as vice president of the national bank was within the prohibitions contained in the Clayton Act prior to its amendment by the Banking Act of 1935, and such service was not covered by his permit. Therefore, it appears that such service does not come within the exception contained in section 8 of the Clayton Act as amended by the Banking Act of 1935 which provides that a

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"director, officer, or employee of a member bank who was 'lawfully serving' another bank on the date of the enactment of the Banking Act of 1935 is not prohibited by the Clayton Act from continuing such services until February 1, 1939.

"Therefore, unless Mr. Barbour's relationships are otherwise excepted from the prohibitions of the Clayton Act as amended by the Banking Act of 1935, it appears that he may not lawfully continue to serve as officer of the national bank while serving as director of the savings institution. In this connection, the information in the Board's files would indicate that the two institutions are engaged in some of the same classes of business.

"If, in the light of your knowledge of the facts involved, you agree that Mr. Barbour cannot lawfully continue to serve as officer of the national bank while serving as a director of the savings institution, it is suggested that you advise him accordingly."

Approved unanimously.

Letter to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Mr. J. Renz Edwards made application under the Clayton Act for permission to serve as director of Brotherhood State Bank and Security National Bank of Kansas City, both of Kansas City, Kansas, and on February 15, 1935 the Board requested you to advise Mr. Edwards that, upon the basis of the information before it, it felt that the issuance of the permit applied for would be incompatible with the public interest. Subsequently, additional facts and arguments were submitted in support of the application and, on May 29, 1935, you were advised that the Board had decided to defer further action upon the application until it could be definitely ascertained whether the proposed amendments to the Clayton Act then pending before the Congress would be enacted.

"In view of the fact that both banks are located in the same city and appear to be engaged in substantially the same kind of business, it appears that the relationships involved are prohibited by section 8 of the Clayton Act as amended, and it is suggested that you advise Mr. Edwards accordingly, and ascertain what steps he proposes to take in order to comply with the statute.

"As you know, a resolution of the Board, adopted September 12, 1935, a copy of which was sent to you with the Board's letter of September 13, 1935 (X-9317), granted permission under certain circumstances until March 1, 1936 or until the adoption of general regulations by the Board, whichever is the earlier, to any person who had an application pending before the Board upon which the Board 'had taken no action' prior to the enact-

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"ment of the Banking Act of 1935. However, in view of the fact that the Board had acted upon this application, as stated in its letter of February 15, 1935 referred to above, the permission granted in the Board's resolution is not applicable in this case."

Approved unanimously.

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

"A reply to your letter of December 28, 1935, regarding the applicability of the Clayton Act to the proposed service of General Ernest Hinds as a director of the National Bank of Fort Sam Houston, San Antonio, Texas, was deferred pending consideration and adoption by the Board of a revision of Regulation L.

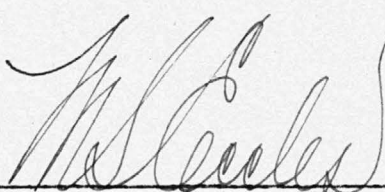
"The letter from Mr. J. H. Frost, dated December 24, 1935, a copy of which you inclosed, stated that the National Bank of Fort Sam Houston is a suburban bank and is not in competition with the South Texas National Bank of San Antonio, of which General Hinds is now a director, since the latter bank is located in the downtown section of San Antonio.

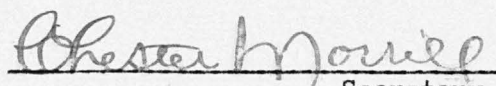
"Although in adopting the revision of Regulation L the Board gave careful consideration to the question presented by cases such as that discussed in your letter, it felt that it should not permit the service of two national banks located in the same city except in the limited classes of cases described in the regulation. Accordingly, unless General Hinds' proposed relationships would come within one of the classes permitted by the law or the regulation, the proposed relationships would not be lawful, and it is suggested that you advise Mr. Frost accordingly."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.