A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 20, 1936, at 11:30 a. m.

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

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

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letter to Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the bank on January 17, 1936, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated January 15, 1936, from Mr. James submitting a letter dated January 8 from Mr. Helm, Deputy Governor of the Federal Reserve Bank of Kansas City, which requested approval of a change in the personnel classification plan of the Oklahoma City Branch of the bank to provide for an increase in the salary range for the position of "clerk-messenger" in the Non-cash Collection Department. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of December 11, 1935, and inclosures, with reference to the refusal of the Superintendent of Banks of the State of California to issue a license to the First National Bank in Santa Ana, Santa Ana, California, to transact a trust business in that State until there has been a reconcilement by court action of the apparent conflict between a provision of the California laws requiring the Superintendent to examine the books, records and assets of trust departments of national banks and the third paragraph of section 11(k) of the Federal Reserve Act, as amended by section 342 of the Banking Act of 1935, which exempts the trust departments of national banks from examinations by State banking authorities.

"It is assumed that the First National Bank in Santa Ana is aware of the fact that, as stated in a circular the Comptroller of the Currency addressed to it under date of September 6, 1935, a copy of which was sent to you with the Board's letter of September 14, 1935 (X-9321), the third paragraph of section 11(k), as amended, prohibits the compulsory examination of the bank's trust department by the State banking authorities but does not prohibit the bank from 'permitting an inspection of its records by anyone it desires'. As you know, the Board's grant of full trust powers to the First National Bank in Santa Ana was given on the assumption that the predecessor bank, The First National Bank of Santa Ana, would be placed in voluntary liquidation as soon as it was possible to do so. In the circumstances, since it is understood that the Comptroller's office for some time has been urging that this step be taken, and, in view of the desirability of such action, together with the necessity of first providing for the handling of the trust business now held by the predecessor bank, it is suggested that, if you have not already done so, you consider the advisability of calling the attention of the First National Bank in Santa Ana to the possibility that it might solve the problem with which it is now faced by agreeing that the California Superintendent of Banks may examine its trust department. It will be appreciated, also, if you will keep the Board advised as to any developments in this case or in any other case in California in which the Superintendent refuses to issue a license to a national bank to transact a trust business in that State.

"While it is understood from the letter addressed by Mr. M. G. Luddy to the Chief National Bank Examiner for your district, a copy of which was inclosed with your letter, that it would be inadvisable, in view of all the circumstances involved, for the First National Bank in Santa Ana to enter into litigation with the California Superintendent of Banks regarding his refusal to issue a license to it to transact a trust business in that State, it is suggested also that you call the attention of the bank to the fact that it is not legally necessary for it to obtain such a license in order to exercise the trust powers granted to it by the Board; and in this connection, there is inclosed for your information a copy of a letter dated August 15, 1934, which the Board addressed to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland."

Approved unanimously.

Letter to Mr. James W. Collins, President, Tracy Loan & Trust Company, Salt Lake City, Utah, reading as follows:

"Receipt is acknowledged of your inquiry of January 2, 1936, concerning whether your bank must publish reports of Tracy Corporation, an organization which the Board has determined not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

"For the purpose of the statutory provisions requiring the filing and publication of reports of affiliates of member banks, affiliates include both 'holding company affiliates', as defined by section 2(c) of the Banking Act of 1933, and 'affiliates', as defined by section 2(b) of the Banking Act of 1933. While, as a result of the Board's determination, Tracy Corporation is not a 'holding company affiliate' of your bank for the purpose of such provisions, it is understood that a majority of the directors of such corporation are directors of your bank and that, accordingly, such corporation is an 'affiliate' of your bank.

"If such is the case, the law requires your bank to file and publish reports of such corporation, subject to the provision that the Board may waive the requirement for such reports. The Board has waived the requirement for such reports in certain classes of cases. The inclosed circular contains the waiver which was in effect at the time of the

"latest call for reports and it is believed that you can determine for yourself whether it was applicable in the case of Tracy Corporation. The waiver is, of course, subject to change by the Board. A statement of the then effective waiver is furnished in connection with each call for reports. If you have any further question concerning this matter, it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter dated December 27, 1935, in which you quote a letter dated December 24, 1935, from the First National Bank at Pittsburgh, presenting the question whether a member bank may pay interest on certain time deposits payable upon thirty days' written notice at a rate of 1 per cent per annum compounded monthly instead of quarterly as required by the supplement to Regulation Q.

"The national bank states that it has been its practice to pay interest on time deposits payable upon thirty days' notice at a rate of 1 per cent per annum compounded monthly. It also states that the difference between the interest for one year on $1,000,000 at 1 per cent compounded quarterly and interest for one year on such amount at 1 per cent compounded monthly is $8.35. The bank states that this difference is negligible and for this reason it apparently desires to be permitted to pay interest at 1 per cent per annum compounded monthly instead of quarterly.

"As you know, the Board's Regulation Q does not attempt to prescribe any particular basis or period of time for the compounding of interest, but merely prescribes that the interest paid shall not exceed a maximum rate compounded on a certain basis without regard to the basis upon which interest is computed. In this connection, the Board has permitted all possible flexibility in the method of computing interest within the maximum rate prescribed and has stated in footnote 2 to the supplement to Regulation Q that the fixing of a maximum rate at a certain per cent compounded quarterly does not prevent the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate

"amount of interest at the rate prescribed when compounded quarterly.

"The bank apparently takes the position that, even if it should compound interest quarterly, it could not pay interest at a rate of 1 per cent per annum on amounts which were left on deposit for a period of less than three months. It appears, however, that if an amount were left on deposit for two months under an agreement to pay interest at 1 per cent compounded quarterly, the bank could pay interest at 1 per cent for the two months during which the amount constituted a time deposit and that no question of compounding would be involved in such a case. Of course, the bank could not credit interest to the account at 1 per cent at the end of the first month of a quarterly period and then pay interest on the total amount for the second month at 1 per cent, but if the deposit were made under an agreement to pay interest at 1 per cent compounded quarterly, there would seem to be no reason why the bank would wish to compound interest monthly on an amount which was left on deposit for less than the three months' interest period.

"If the Board were to prescribe a maximum rate of interest compounded monthly, it would be considered by many member banks as a suggestion that they pay interest at the prescribed maximum rate compounded on a monthly basis; and, due to competition from other banks, many member banks would doubtless feel it necessary to make this change. As you know, the Board's Regulation Q in the form in which it first became effective in 1933 prescribed a maximum rate of interest of 3 per cent per annum, compounded semi-annually, and the provision was changed in the revision which became effective February 1, 1935 to provide a certain maximum rate of interest, compounded quarterly. This action was taken after careful consideration of the matter and it is believed that the provision in its present form is best suited to the customs and practices of the majority of member banks.

"You state that where depositors are accustomed to being paid interest on a compounded monthly basis, it will be a source of irritation to require a change to be made to a compounded quarterly basis or to require that the rate be reduced below 1 per cent in order to continue compounding monthly. However, it is the view of the Board that there would be no more friction caused by such a change than would be caused by other changes in the interest rates payable by member banks in order to bring them into conformity with the provisions of Regulation Q. It is unfortunate that borderline cases of this kind arise, but they are inevitable

"under any maximum rate and the Board feels that it is not justified in making an exception in cases such as the one presented in your letter. Accordingly, it will be appreciated if you will advise the First National Bank at Pittsburgh of the Board's views in this matter and inform the bank that the payment of interest on a deposit payable upon thirty days' written notice at a rate of 1 per cent per annum, compounded monthly, is not permitted by the provisions of the supplement to Regulation Q."

Approved unanimously.

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

"Receipt is acknowledged of your letter of January 7, 1936, with inclosures, requesting a ruling by the Board with respect to the question whether the Security Bank and Trust Company, Wharton, Texas, may lawfully pay interest on demand deposits arising from an arrangement between such bank and the Commercial State Bank of El Campo, El Campo, Texas, regarding deposits of funds of Wharton County Conservation and Reclamation District No. 1.

"It is understood that the Commercial State Bank of El Campo which is not located at the county seat of Wharton County was designated as depository of the funds of Wharton County Conservation and Reclamation District No. 1; that such bank entered into an agreement with the Security Bank and Trust Company, a member bank located at the county seat, whereby the latter bank receives all funds of the district and pays interest thereon to the Commercial State Bank of El Campo which in turn pays the interest to the county treasurer at the same rate; that most of the warrants drawn on the district are paid by the Commercial State Bank of El Campo but that some of the warrants are paid by the Security Bank and Trust Company; that this procedure was adopted in view of the provisions of Article 2553 of the Revised Statutes of Texas which require any depository not located at the county seat to file with the county treasurer a statement designating the place at the county seat where, and the person by whom, all deposits may be received and all checks paid.

"It is further understood that conservation and reclamation districts are organized under the provisions of Articles 8194-8197 of the Revised Statutes of Texas, which authorize the creation and organization of such districts in any manner

"that water improvement, drainage, or levee improvement districts are authorized by the laws of the State of Texas to be created. It appears that the statutes relating to depositories of water improvement districts and depositories of drainage districts require that such depositories shall be governed by the laws relating to county depositories. Although it does not appear that the statute relating to depositories of levee districts requires that such depositories shall be governed by the provisions of law relating to county depositories, it is noted that counsel for your bank states that in his opinion the laws of the State of Texas pertaining to the selection of depositories for county funds are applicable to Wharton County Conservation and Reclamation District No. 1.

"As you know, the Board expressed the view in a letter dated October 10, 1934, that the statutory provisions of the State of Texas governing depositories of county funds require the payment of interest on demand deposits of such funds, within the meaning of section 19 of the Federal Reserve Act.

"There appears to be some doubt whether the funds here in question upon which interest is paid by the Security Bank and Trust Company may properly be regarded as deposits of funds of Conservation and Reclamation District No. 1, since it is understood that the funds are credited to the Commercial State Bank of El Campo. However, it is understood that it is the opinion of counsel for your bank that the deposits in the Security Bank and Trust Company are the deposits of public funds on which interest is required by the law of Texas to be paid. In view of this opinion of your counsel, and since this matter involves a question of local law, the Board will offer no objection to the payment by the Security Bank and Trust Company of interest on the demand deposits under consideration."

Approved unanimously.

Letter to Wise, Shepard & Houghton, Counsellors at Law, New York, New York, reading as follows:

"This refers to your letter dated December 26, 1935, in which you ask to be advised whether a deposit of funds of a corporation in liquidation may be classified as a savings deposit within the meaning of section 1(e) of Regulation Q.

"You state that, under the laws of New York, directors of a corporation organized under the laws of such State become trustees for the stockholders of such corporation upon filing the consent for dissolution. You further state that you are attorneys for a New York corporation in liquidation which has a savings deposit in the name of such corporation and that the signatures required for withdrawal from such deposit are those of the liquidating trustees and not of any particular officer. It is understood that the liquidating trustees have deposited in such account their cash assets pending collection of certain outstanding assets, all of which will inure to the benefit of the stockholders. The question presented is whether such a deposit may be classified as a savings deposit as defined in Regulation Q.

"Section 1(e) of Regulation Q provides, in part, as follows:

> 'The term "savings deposit" means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization * * *.'

"It is the view of the Board that deposits of funds of the liquidating trustees of a business corporation may not be considered as deposits of funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. Accordingly, such deposits in a member bank of the Federal Reserve System may not be classified as savings deposits within the definition contained in Regulation Q.

"However, as you are no doubt aware, there is nothing in Regulation Q which would prevent such funds from being deposited in an interest-bearing time deposit, as defined in such regulation.

"If you have any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of New York, which will be glad to answer your inquiries."

Approved unanimously.

Letter to Mr. Harry G. Holabird, Receiver, North American Associated Companies, Los Angeles, California, reading as follows:

"This refers to your letter dated December 27, 1935, and inclosures, in which you present the question whether a deposit made by you as Federal receiver in equity may be classified as a savings deposit within the meaning of section 1(e) of Regulation Q.

"You state that you are Federal receiver in equity of the North American Associated Companies, a corporation organized under the laws of Delaware as a holding company for building and loan associations. You state that the funds deposited by you in special savings accounts are the accumulation of collections made by you as receiver. You also state that your official duty as receiver is to act as conservator of assets and that your operations as receiver have not been for profit.

"Section 1(e) of Regulation Q provides, in part, as follows:

> 'The term "savings deposit" means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization * * *.'

"It is the view of the Board that a deposit by you as Federal receiver in equity of the North American Associated Companies may not properly be considered as a deposit of funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. Accordingly, without regard to the question whether your operations as receiver have or have not been for profit, it is the view of the Board that deposits by you as receiver of the business corporation under consideration may not be classified as savings deposits within the definition contained in Regulation Q.

"However, as you are no doubt aware, there is nothing in Regulation Q which would prevent such funds from being deposited in an interest-bearing time deposit, as defined in such regulation.

"If you have any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of San Francisco, which will be glad to answer your inquiries."

Approved unanimously.

Letter to Nutter, McClennen & Fish, Boston, Massachusetts, reading as follows:

"Reference is made to your letter of January 10 in which you inquire regarding the loan value under Regulation T of the stock of a certain investment trust.

"It appears that the stock of this investment trust is not a security registered on a national securities exchange, and that the stock is not an exempted security by the terms of the Securities Exchange Act of 1934 nor by any rule or regulation of the Securities and Exchange Commission. In these circumstances, section 7(c) of the Securities Exchange Act of 1934 makes it unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, to extend credit to or for any customer on such stock for the purpose of purchasing or carrying securities. Regulation T gives such stock no value in determining the maximum loan value of the securities in an account.

"If further questions arise regarding Regulation T, it is suggested that inquiries be addressed to a national securities exchange of which the client involved is a member, or to the Federal Reserve Agent at the Federal Reserve Bank of Boston."

Approved unanimously.

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

"Receipt is acknowledged of Mr. Young's letter of January 11, 1936, with further reference to the Board's request for a copy of the articles of incorporation executed by the I-C Bank and Trust Company, Chicago, Illinois.

"Mr. Young has advised that Illinois State banks do not execute articles of incorporation at the time of their

"organization but merely file with the State authorities an application to organize, a copy of which was inclosed with his letter, and that, upon the receipt of the certified copy of the application to organize executed by the I-C Bank and Trust Company, which your office has requested from the Auditor's office, it will be forwarded to the Board. In the circumstances, Mr. Young has asked whether applications of this kind filed by Illinois State banks hereafter applying for membership should be furnished to the Board.

"It appears from the form inclosed with Mr. Young's letter that such an application is analogous to the articles of incorporation usually executed in connection with the organization of a bank in other States, and it will be appreciated, therefore, if you will obtain and forward to the Board a copy of such document in the case of each Illinois State bank applying for membership in the future."

Approved unanimously.

Letter to Governor Harrison of the Federal Reserve Bank of New York, as Chairman of the Federal Open Market Committee, reading as follows:

"Your letter of December 19, 1935, addressed to Chairman Eccles and inclosing copies of the resolutions adopted at the meeting of the Federal Open Market Committee on December 17 and 18, 1935, has been brought to the attention of the Board of Governors of the Federal Reserve System.

"The Board has requested me to advise you that it has noted with approval the resolution adopted by the Federal Open Market Committee which authorizes the executive committee to make shifts between maturities of Government securities held in the System account up to $300,000,000, provided that the amount of securities maturing within two years be maintained at not less than $1,000,000,000 and that the amount of bonds be not over $300,000,000, in connection with which you stated that this would give the executive committee sufficient authority to deal with any unusual situation that might arise.

"A copy of this letter is being sent to the chairman of the board of directors of each Federal reserve bank."

Approved unanimously.

Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Referring to previous correspondence with respect to whether the Federal Reserve banks should continue to pay out new Federal Reserve notes of the 1928 series when notes of the 1934 series are available and to the additional orders which have been placed for the printing of notes of the 1934 series, there is inclosed one copy each of a letter received from the Secretary of the Treasury dated December 13, 1935, the Board's reply thereto, dated December 20, 1935, and a letter from the Acting Secretary of the Treasury dated January 3, 1936, in which he states that he assumes the Board of Governors of the Federal Reserve System and the Federal Reserve banks are issuing the appropriate instructions with respect to the matter discussed in the letter of December 13, 1935.

"The Board wishes to cooperate with the Treasury Department in this matter and therefore requests that you make no further issues of new Federal Reserve notes of the 1928 series to your Federal Reserve bank when you have on hand notes of the 1934 series available to meet the requests for currency by the bank. You are also requested to submit promptly to the Board requisitions for a sufficient amount of Federal Reserve notes of the 1934 series to build up your stock of the various denominations of such notes to a point where you will be able to meet probable requirements of your bank for new Federal Reserve notes. New Federal Reserve notes of the 1928 series now held by you should be retained for the present for possible emergency use. For your information in this connection there is attached hereto a statement showing the stock of Federal Reserve notes of the 1934 series of each Federal Reserve bank now on hand at the Bureau of Engraving and Printing and a supplemental statement showing the amount of such notes by denominations which are still due from the Bureau of Engraving and Printing on orders placed during 1935. You have been advised in a separate communication of the orders placed during January 1936 with the Bureau for printing Federal Reserve notes of the 1934 series for the remainder of the current fiscal year."

Approved unanimously.

Letter to Mr. P. A. Brown, Assistant Cashier of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of January 16 advising that your bank desires to have fit Federal Reserve notes of the Federal Reserve Bank of Cleveland received by the Federal Reserve Banks of New York and Philadelphia forwarded to your Pittsburgh branch instead of to the Federal Reserve bank.

"There does not appear to be any objection to this procedure, and in view of the circumstances, as reported by you, the proposed arrangement would appear to be desirable. It is suggested that arrangements be made direct with the Federal Reserve banks of New York and Philadelphia."

Approved unanimously.

Letter to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, reading as follows:

"Your letter of January 15, 1936, advising that the next meeting of the Federal Advisory Council will be held in Washington on February 11 and 12, 1936, has been brought to the attention of the Board of Governors of the Federal Reserve System, and I have been requested to advise you that the present Board does not have any topics to suggest for discussion by the Council at that time."

Approved unanimously.

Letter to Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of January 10, 1936, advising that the group life insurance policy at your bank entailed an expense of $6,021.01 to the Federal Reserve bank during the year ended November 30, 1935, and that unless the Board of Governors objects to such action the Federal Reserve bank will continue this insurance during the year ending November 30, 1936.

"It is understood from your letter that the cost to the Federal Reserve bank was very greatly increased by a change in the formula used by the insurance company in calculating dividends on group policies, but that this change in the formula will not, it is believed, result in the long run in any substantial increase in the cost of group life insurance covering groups with a satisfactory mortality

"experience. Under the circumstances the Board will interpose no objection to your continuing your contributory group life insurance contract indefinitely, or until such time as you are otherwise advised by the Board. If, however, you find at any time that the average annual cost of such insurance to the bank, beginning with the current year, is likely to be substantially in excess of the original estimate of $1,380 furnished by representatives of the life insurance company a year ago, it will be appreciated if you will bring the question of the continuance of the policy to the Board's attention for further consideration."

Approved unanimously.

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

"In response to your letter of January 2, 1936, you are advised that the Board of Governors of the Federal Reserve System approves payment by the Federal Reserve Bank of Atlanta to Messrs. McKay, Withers and Ramsey of the sum of $1500 for legal services rendered in connection with the indirect indebtedness of the Florida Asphalt Block Paving Company, the payment of said fee previously having been authorized by the Executive Committee of the Federal Reserve Bank of Atlanta after consultation with the Bank's General Counsel."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.