

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, January 24, 1936, at 3:30 p. m.

PRESENT: Mr. Eccles, Chairman
 Mr. Thomas, Vice Chairman (latter part of meeting)
 Mr. Hamlin
 Mr. Miller
 Mr. Szymczak
 Mr. O'Connor (first part of meeting)

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Thurston, Special Assistant to the Chairman
 Mr. Wyatt, General Counsel

Chairman Eccles presented a recommendation submitted by the Chief of the Board's Division of Security Loans that the Board increase from 45% to 55% the highest margin requirements prescribed in Regulation "T" relating to the extension and maintenance of credit by brokers, dealers, and members of national securities exchanges, for the following reasons:

The advance in stock prices, which began last March and continued until the middle of November, has been resumed during recent weeks, and during the last few days stock prices have risen to a new high level distinctly above that reached last November, about even with the level of the middle of 1931, and above the level of 1926. At the same time the volume of trading has increased again to about 3,000,000 shares per day.

The volume of credit extended to customers by member firms of the New York Stock Exchange who carry margin accounts, which began to increase about the middle of 1933, has increased since that time by about \$215,000,000, or approximately 20 per cent. At the same time the borrowings of these firms at banks have increased by about \$150,000,000. Bank loans on securities to borrowers other than brokers, after declining to last September, have subsequently shown a slight increase.

There recently has been an increase in the amount of brokers' borrowings at banks and of customers from brokers, and these increases have lasted for several months and have continued until the present time. On the basis of past experience it would seem that a further advance in securities prices would be

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likely to be accompanied by a further growth in the use of credit in the stock market.

While the amount of borrowing at this time is low as compared with some past years and much of the trading at this time is on a cash basis, the amount of borrowing is at about the level from which the great increase that accompanied the stock market boom commenced. The restraining influence of any increase in margin requirements in order to be effective must be applied before an unhealthy development of credit in the stock market gets under way.

It was pointed out that the specific action recommended would change the figure of 55% in the present margin formula contained in Regulation "T" to 45%; that the principal effect would be to increase the amount of margin required on about three-fifths of the active stocks from 45% of their market value to 55%; that it would raise the upper limit of the "anti-pyramiding zone" from 182% of the lowest market price to 222% of the lowest market price, thus restoring some stocks (representing about 15% of the trading) to that zone; and that margin requirements on securities which have risen by less than 82% of their official lows would not be increased.

Reference was made to the continued existence of a large volume of excess reserves of member banks, amounting to over \$3,000,000,000 at the present time, and to the potential danger of credit expansion growing out of the availability of these unused funds which may be drawn upon in part to finance operations in the securities markets. It was pointed out that the Board had been entrusted with the specific power under the Securities Exchange Act of 1934 to prevent the excessive use of credit for the purchase or carrying of securities and that action that would diminish the general supply of credit might result in a tendency to retard

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recovery, which is as yet far from complete. Chairman Eccles stated that, in view of the situation as a whole, he felt that the action recommended should be taken by the Board immediately.

A discussion of the recommendation followed, during which it appeared that the members of the Board were in agreement that, in view of all the circumstances, the proposed action was desirable.

Mr. Wyatt called attention to the fact that, under section 7(a) of the Securities Exchange Act of 1934, the Board's regulation governing the extension of credit by brokers, dealers and members of national securities exchanges must be "for the purpose of preventing the excessive use of credit" and that, under section 8(b), the Board is authorized to prescribe higher margin requirements than those set forth in section 7(a) of the Act only when the Board deems it "necessary or appropriate to prevent the excessive use of credit to finance transactions in securities". He stated that the purpose of section 7 was not to regulate the prices of securities or the volume of trading on the exchanges, but only to prevent the excessive use of credit for the purchase or carrying of securities; that, before increasing margin requirements, the Board should make a finding that such action is "necessary or appropriate to prevent the excessive use of credit to finance transactions in securities"; and that the record should contain a sufficient statement of facts to furnish reasonable support for such a finding.

Chairman Eccles referred to the increase of \$215,000,000 in the amount of credit extended to customers by member firms of the New York Stock Exchange who carry margin accounts, the increase of \$150,000,000

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in the borrowings of these firms from banks, and the fact that this trend is continuing at the present time, and expressed the opinion that the Board was amply justified in increasing margin requirements in order to prevent such use of credit from becoming excessive.

Mr. Szymczak raised the question when the proposed increase should be made effective. Mr. Parry was called into the meeting and the question was discussed. It was agreed that those affected by the increase in margin requirements would have ample notice if the increase were made effective February 1 and an immediate announcement thereof were made by the Board.

Mr. Szymczak moved that, for the reasons set forth above, the Board approve and adopt an amendment to Regulation "T" and supplement thereto as set forth below, both to become effective February 1, 1936, as necessary and appropriate to prevent the excessive use of credit to finance transactions in securities:

"Amendment No. 7 of Regulation T - Effective February 1, 1936.

"Subsections (a), (b) and (c) of section 3 of Regulation T are hereby amended to read as follows:

"(a) General Rule. - No creditor shall make any initial extension of credit to any customer on any registered security (other than an exempted security) for the purpose of purchasing or carrying any security, in an amount which causes the total credit extended on such registered security to exceed the maximum loan value of such registered security. Except as specifically provided elsewhere in this regulation, the maximum loan value of a registered security (other than an exempted security) shall be the maximum loan value which the Board of Governors of the Federal Reserve System shall prescribe as of general application under this regulation from time to time in supplements to this regulation, which will be issued in advance of the date upon which such maximum loan value becomes effective.

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"(b) Extension of credit to other members, brokers and dealers. -

"In a special account recorded separately, any creditor may extend credit on any registered security to any other member, broker or dealer in an amount not greater than the maximum loan value of such security, which (except in the case of an exempted security) shall be such special maximum loan value as the Board of Governors of the Federal Reserve System shall prescribe for the purposes of this subsection (b) from time to time in supplements to this regulation, which will be issued in advance of the date on which such maximum loan value becomes effective: Provided, That (1) such other member, broker, or dealer is subject to the provisions of this regulation or has places of business only in foreign countries, (2) such credit is extended or maintained solely for the purpose of enabling such member, broker, or dealer to carry accounts for his customers other than his partners, and (3) any credit extended or maintained by such creditor to or for such other member, broker or dealer for the purpose of purchasing or carrying securities for his own account or for the account of his firm or any of his partners shall not be included in such special account and shall be subject to the other provisions of this section.

"(c) Extension of credit to distributors, syndicates, etc. -

"In a special account recorded separately, any creditor may extend credit on any registered security to the persons and for the purposes specified below in an amount not greater than the maximum loan value of such security, which (except in the case of an exempted security) shall be such special maximum loan value as the Board of Governors of the Federal Reserve System shall prescribe for the purposes of this subsection (c) from time to time in supplements to this regulation, which will be issued in advance of the date upon which such maximum loan value becomes effective: Provided, That such credit is extended:

(1) To any dealer, for the purpose of financing the distribution of an issue of securities at wholesale or retail; or

(2) To any group, joint account or syndicate, for the purpose of underwriting or distributing an issue of securities."

"SUPPLEMENT TO REGULATION T
ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Effective February 1, 1936.

Maximum loan values of registered securities (other than exempted securities) for purposes of Regulation T.

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"Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 3 of its Regulation T, as amended, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered securities (other than exempted securities) for the purposes of Regulation T:

(1) General rule.—Except as provided in paragraphs (2) and (3) of this supplement, the maximum loan value of a registered security (other than an exempted security) shall be whichever is the higher of:

(A) 45 percent of the current market value of the security; or

(B) 100 percent of the lowest market value of the security computed at the lowest market price therefor during the period of 36 calendar months immediately prior to the first day of the current month, but not more than 75 percent of the current market value: Provided, That until July 1, 1936, for the purpose of this regulation, the lowest price at which a security has sold on or after July 1, 1933, but prior to the first day of the current month, shall be considered as the lowest market price of such security during the preceding 36 calendar months; and Provided, That the lowest market price which could be used under the provisions of this regulation during any calendar month may be used during the first 7 calendar days of the succeeding calendar month.

(2) Extension of credit to other members, brokers and dealers.—

The maximum loan value of a registered security (other than an exempted security) in a special account with another member, broker or dealer, which special account complies with subsection (b) of section 3 of Regulation T, as amended, shall be 80 percent of the current market value of the security.

(3) Extension of credit to distributors, syndicates, etc.—

The maximum loan value of a registered security (other than an exempted security) in a special account with a distributor, syndicate, etc., which special account complies with subsection (c) of section 3 of Regulation T, as amended, shall be 80 percent of the current market value of the security."

Carried unanimously, and Messrs. Thurston and Parry were authorized to prepare a statement for the press, to be released immediately, with regard to the Board's action.

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At this point Messrs. Thurston and Parry left the room and Mr. Smead, Chief of the Division of Bank Operations, joined the meeting.

Reference was made to memoranda dated January 17 and 18, 1936, from Mr. James containing recommendations as to the action to be taken by the Board on the salaries fixed by the Federal reserve banks for officers of the banks during 1936 (except the Federal Reserve Bank of Minneapolis from which advice of action with regard to officers' salaries had not been received when the memoranda were prepared). The memoranda, which had been circulated among the members of the Board, pointed out that the Federal Reserve Banks of Philadelphia, Richmond, St. Louis, and Dallas proposed to make no changes in the salaries of officers, that the Federal Reserve Banks of Boston, New York, Cleveland, Atlanta, Chicago, Kansas City, and San Francisco had proposed increases in salaries of officers, and that the Federal Reserve Bank of Atlanta had approved decreases in the salaries of five officers. It was stated that advice of the officers' salaries fixed by the Federal Reserve Bank of Minneapolis during 1936 had been received in the Board's offices today, and that increases in salaries were proposed for certain officers of that bank.

Chairman Eccles stated that he felt that some of the increases proposed, particularly at the Federal Reserve Bank of New York, were not in accord with the position taken by the Board in its letters of January 5, 1935, and November 22, 1935; that some of the salaries now being paid were out of line; and that the only way the Board could satisfactorily discharge its responsibility in connection with the approval of salaries

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at the Federal reserve banks would be for it to establish a classification of official positions in the banks which would determine the salary to be paid for each position without reference to the person occupying a particular position. He stated that his suggestion would be that no action be taken on the increases at this time, and that the matter be presented to the new Board with a view to reaching a decision with regard to the classification of official positions at the banks.

During the ensuing discussion Mr. Szymczak referred to the procedure established by the Board in 1934 which contemplated that proposed changes in salaries of officers of each of the Federal reserve banks would be submitted informally to the Board's committee for the district prior to consideration by the Board of the formal recommendations, and stated that he felt the Board would not be in a position to act intelligently on the salaries fixed for officers of the bank until the members had visited the Federal reserve banks and had become acquainted with the officers and the character and quality of their work.

Mr. Thomas joined the meeting during Mr. Szymczak's statement.

Mr. O'Connor suggested that there should be prepared for the consideration of the new Board a memorandum setting forth the position of the present Board with regard to salaries of officers at the Federal reserve banks.

At the conclusion of the discussion, Mr. Miller outlined briefly the contents of a letter which he felt should be sent to the chairmen of all Federal reserve banks with regard to salaries of officers of the banks, and moved that Mr. Smead be requested to prepare such a letter.

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Carried unanimously.

Mr. Miller also moved that the present Board recommend to the new Board that it appoint a committee to study the organization of each Federal reserve bank, with particular reference to the salaries paid to the senior officers.

Carried unanimously.

Messrs. O'Connor and Smead withdrew from the meeting at this point.

Reference was then made to a list of items proposed to be placed in the policy record required to be kept by the Board under the provisions of the last paragraph of Section 10 of the Federal Reserve Act, on which questions had been raised as to whether they should be included in the record. Each of the items was reviewed briefly by Mr. Morrill. Mr. Eccles referred to the decision previously reached by the Board that the record should include only matters of an important nature which affect the public interest, and Mr. Miller stated that in a recent conversation with Senator Glass the latter had confirmed the understanding that it was the intention of Congress that only such matters should be placed in the record.

It was agreed unanimously that the following matters should be eliminated from the policy record:

Classification of member banks for purpose of electing Class A and B directors.

Holding company affiliate and affiliate relationships of member banks of which both Northwest Bancorporation and the Reconstruction Finance Corporation own stock.

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Resolution making provision for the handling of Clayton Act applications pending before the Board at the time of the enactment of the Banking Act of 1935.

Filing of an application with the Works Progress Administration for the allotment of funds to enable the Board to sponsor a sample study of the distribution and activity of deposits for the period from January, 1928 to June, 1931, inclusive.

Question whether bank should apply for additional Federal reserve bank stock on basis of par value of its stock and of surplus as shown by its books, or whether such book surplus should be ignored in making application for additional stock.

Waiver of compliance by State member banks in Maryland with condition of membership requiring deposit of securities to secure trust funds deposited in commercial department.

Reply to the Federal Reserve Bank of Chicago with regard to the desirability of an active campaign for applications for membership from State banks.

Appointment of Mr. J. David Stern as a Class C director at the Federal Reserve Bank of Philadelphia.

Matter of granting indefinite extension of effective date for compliance by Fall River Trust Company, Fall River, Massachusetts, with the provisions of condition of membership requiring bank to remove from its banking quarters the offices of a cooperative bank now located therein.

Entry with regard to calling meeting of Federal Open Market Committee.

Question whether "agency accounts" in the foreign Department of the Industrial Trust Company, Providence, Rhode Island, are deposits within the meaning of Section 19 of the Federal Reserve Act.

Letter to Mr. Hofmann on question whether bank may make a loan to a depositor on the security of his time certificate of deposit.

Letter to Mr. Curtiss regarding absorption of charges for examinations of State member banks.

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Question of appointment of officers of the Federal reserve banks to serve after December 31, 1935.

It was also agreed unanimously that the following matters should be included in the policy record and that the entry with regard to the eligibility for membership in the Federal Reserve System of State banks having outstanding certificates representing waived deposits should be entered in the record under date of November 8, 1935, the date upon which the question of policy involved was discussed:

Salaries of officers and employees of the Federal reserve banks for 1936.

Adoption of Regulations "I", "D" and "Q".

Exchange by the Federal Reserve Bank of Chicago of maturing Treasury notes for a corresponding amount of a new issue.

Question of policy considered in connection with the grant of trust powers to the Decatur County National Bank of Greensburg, Indiana.

During the consideration of this matter Mr. Wyatt was called out of the meeting.

Chairman Eccles stated that he had received a letter dated January 20, 1936, from Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, advising that a thorough study and consideration of the definition of "interest" as contained in subsection 1(f) of the Board's Regulation "Q" had led the Corporation to the conclusion that to include the same provision in its regulation with regard to the payment of interest by insured nonmember banks would very adversely affect too many small insured banks, and that, while it was realized that harmonious regulations by the Board and the Corporation were most desirable, it appeared that in this particular instance facts and conditions were such that the Corporation could not cooperate with the

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Board to the extent desired. Chairman Eccles said that the definition of "interest" as contained in the regulation issued by the Federal Deposit Insurance Corporation to become effective on February 1, 1936, does not prohibit the absorption of exchange or collection charges by insured nonmember banks as indirect payments of interest, that he felt that the action to be taken by the Board with regard to the definition of "interest" in Regulation "Q" was a matter which should be given very careful consideration, and that, therefore, he desired to suggest that the Federal reserve banks be advised that, pending further consideration of the matter by the Board, a date upon which subsection (f) of section 1 of Regulation "Q" would become effective had not been fixed, and that the status of the definition of "interest" in Regulation "Q" would remain unchanged for the present.

Mr. Szymczak moved that counsel be requested to prepare for consideration a telegram to all Federal reserve banks in accordance with Chairman Eccles' suggestion.

Carried unanimously.

Chairman Eccles then brought up for consideration the following resolution adopted by the Federal Open Market Committee at its meeting on January 21, 1936, copies of which had been sent to the members of the Board following the adjournment of the meeting of the Federal Open Market Committee:

"The Committee has considered the preliminary memorandum and has reviewed the credit situation. It is the sense of the Committee that, so far as business, credit, and banking conditions are concerned, there is nothing in the present situation to prompt the Committee to change

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"its views as expressed in its resolution adopted on December 18th, which the Committee respectfully renews.

"The Committee recognizes that the risks of action are somewhat increased by the present budgetary situation, but it recognizes also that the longer action is delayed, the greater are the dangers resulting from the combination of inordinately large excess reserves and an unbalanced budgetary position, and the greater will be the difficulty of taking remedial action.

"Viewing the situation as a whole, the Committee strongly believes that action looking toward a substantial reduction in excess reserves should be taken as soon as this may be feasible, in the judgment of the Board of Governors of the Federal Reserve System, having in mind the advantages of a coordinated program of recovery."

The resolution was discussed and it was the unanimous agreement of the members present that the resolution called for no action by the Board at this time, but that a letter to the Chairman of the Federal Open Market Committee should be prepared in accordance with suggestions made during the discussion.

Consideration was given to a memorandum dated December 2, 1935, from counsel, expressing the opinion, based on the reasons stated in the memorandum, that the Continental National Bank and Trust Company of Chicago, Illinois, should be required to maintain reserves against so-called uninvested trust funds. The memorandum, together with a draft of letter to the Federal Reserve Agent at the Federal Reserve Bank of Chicago which stated that it was the opinion of the Board that the maintenance of reserves by the Continental National Bank and Trust Company against the uninvested trust funds was required both by section 19 of the Federal Reserve Act and the provisions of the Board's Regulation "D", had been circulated among the members of the Board, and Mr. Thomas had attached a memorandum to the file stating that he did not agree with the ruling proposed in the letter.

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After a brief discussion during which other members expressed agreement with Mr. Thomas' position, counsel was requested to prepare, for consideration, a letter to the Federal reserve agent advising that the maintenance of reserves by the bank against the trust funds referred to is not required.

On this action Mr. Szymczak voted "no".

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on November 30, December 3, 4, 9, 10, 11, 12, 17, 18, 19, 20, 21, 23, 24, 27, 28, 30, 31 (two meetings), 1935, and January 2, 4, 6, 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 20, and 21, 1936, were approved unanimously.

The minutes of the meetings of the Executive Committee of the Board of Governors of the Federal Reserve System held on December 5, 7, 13, 1935, and January 7, 1936, were approved and the actions recorded therein were ratified unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System with the Federal Open Market Committee held on December 17 and 18, 1935, were approved unanimously.

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

Telegrams to Mr. Fry, Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond, stating that the Board approves the establishment without change by the bank on January 23, 1936, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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Letter to the chairmen and governors of all Federal reserve banks, reading as follows:

"The authority granted by the Federal Reserve Board to all Federal Reserve banks in its circular of July 26, 1932 (X-7215-a), as amended by its letter of July 8, 1935 (X-9257), to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and that circular, will expire at the close of business on January 31, 1936. The Board has decided to extend such authorization for an additional six months.

"The Board has revised its circular of July 26, 1932 (X-7215-a), effective February 1, 1936, in order to conform to a change in the law on this subject made by section 322 of the Banking Act of 1935, and a copy of the circular as revised is inclosed herewith. You will observe that section 2 of the revised circular contains an authorization by the Board to all Federal Reserve banks, for a period ending at the close of business on July 31, 1936, to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations and the circular.

"You may if you wish have the revised circular printed or mimeographed and give copies thereof to persons making inquiries regarding this subject, together with copies of the Board's Regulation A and of any supplemental circular and any forms which your bank may adopt with the approval of your counsel."

Approved unanimously. The revised circular referred to above read as follows:

"The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Acts of July 21, 1932, and August 23, 1935, provides as follows:

'In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member

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"banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.'

"In view of the fact that the power conferred by this provision can be exercised only in 'unusual and exigent circumstances', the Board of Governors of the Federal Reserve System has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

"1. LEGAL REQUIREMENTS.

"It will be observed that, by the express terms of the law:

"(a) The power conferred upon the Board of Governors of the Federal Reserve System to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:

- (1) In unusual and exigent circumstances,
- (2) By the affirmative vote of not less than five members of the Board of Governors, and
- (3) For such periods as the Board of Governors may determine.

"(b) When so authorized, a Federal Reserve Bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13, 13a, and 24) of the Federal Reserve Act. (Such paper must, therefore, comply with the applicable requirements of the Regulations of the Board of Governors of the Federal Reserve System.)

"(c) Paper discounted for individuals, partnerships or corporations must be either (1) indorsed or (2) otherwise secured to the satisfaction of the Federal reserve bank.

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"(d) Before discounting paper for any individual, partnership or corporation, a Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions.

"(e) Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Board of Governors of the Federal Reserve System.

"(f) All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

"2. AUTHORIZATION BY THE BOARD OF GOVERNORS.

"The Board of Governors of the Federal Reserve System, pursuant to the power conferred upon it by the amendment hereinbefore quoted, hereby authorizes all Federal reserve banks, for a period ending at the close of business on July 31, 1936, to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular.

"3. FOR WHOM PAPER MAY BE DISCOUNTED.

"A Federal reserve bank may discount for individuals, partnerships or corporations notes, drafts or bills of exchange, which are the obligations of such individuals, partnerships, or corporations or which are the obligations of other parties actually owned by such individuals, partnerships or corporations.

"Within the meaning of this circular, the term 'corporations' does not include banks.

"4. APPLICATIONS FOR DISCOUNT.

"Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be addressed to the Federal Reserve Bank of the District in which the principal place of business of the applicant is located, must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

"(a) A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

"(b) Evidence sufficient to satisfy the Federal reserve bank as to (1) the legal eligibility of the paper offered for discount under the provisions of the Federal Reserve Act and the

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"Regulations of the Board of Governors of the Federal Reserve System and (2) its acceptability from a credit standpoint;

"(c) A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which applications for such credit accommodations were made, the dates upon which such applications were made, whether such applications were definitely refused and the reasons, if any, given for such refusal;

"(d) A list showing each bank with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

"(e) Complete credit data regarding the financial condition of the principal obligors and indorsers, if any, on the paper offered for discount;

"(f) A list and description of any collateral or other security offered by the applicant;

"(g) A waiver by the applicant of demand, notice and protest as to applicant's obligation on all paper discounted by the Federal reserve bank or held by the Federal reserve bank as security; and

"(h) An agreement by the applicant, in form satisfactory to the Federal reserve bank, (1) to furnish additional credit information to the Federal reserve bank, when requested, (2) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (3) to furnish additional security whenever requested to do so by the Federal Reserve Bank.

"5. GRANT OR REFUSAL OF APPLICATION.

"Before discounting notes, drafts, or bills of exchange for any individual, partnership or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

"(a) That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

"(b) That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

"(c) That the indorsement or the security offered is adequate to protect the Federal reserve bank against loss;

"(d) That there is a reasonable need for such credit accommodations; and

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"(e) That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

"A special effort should be made to determine whether the banking institution with which the applicant ordinarily transacts his banking business or any other banking institution to which the applicant ordinarily would have access is willing to grant such credit accommodations.

"A Federal reserve bank should not discount such paper unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purposes. Except with the permission of the Board of Governors of the Federal Reserve System, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions.

"In discounting paper for individuals, partnerships or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

"6. LIMITATIONS.

"Except with the permission of the Board of Governors of the Federal Reserve System, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

"7. ADDITIONAL REQUIREMENTS.

"Any Federal reserve bank may prescribe such additional requirements and procedure respecting discounts hereunder as it may deem necessary or advisable; provided that such requirements and procedure are consistent with the provisions of the law, the Board's regulations and the terms of this circular."

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

"Reference is made to your letter of January 17, 1936, relative to the Clayton Act permit granted November 30, 1932, to Mr. Lawrence M. Miller, Baltimore, Maryland, to serve at the same time as director of The National Marine Bank of Baltimore and as director of the Colonial Trust Company, both of Baltimore, Maryland, in which you request advice as to whether, under the provisions of section 8 of the Clayton Act, as amended, and the Board's revised Regulation L, effective

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"January 4, 1936, Mr. Miller may continue to serve as a director of The National Marine Bank of Baltimore and at the same time as director and president of the Colonial Trust Company.

"It appears that on August 23, 1935, the effective date of the Banking Act of 1935, Mr. Miller was lawfully serving as a director of the two institutions under the authority of the permit granted to him on November 30, 1932, and, accordingly, under the provisions of section 8 of the Clayton Act, as amended, and section 2(c) of the revised Regulation L, effective January 4, 1936, he may, if he so desires, continue to serve as a director of these institutions until February 1, 1939. However, the provisions of section 2(c) of the revised Regulation L, effective January 4, 1936, apply only to directors, officers, or employees of member banks of the Federal Reserve System or any branch thereof who, on August 23, 1935, were lawfully serving at the same time as private bankers or as directors, officers, or employees of any other bank, banking association, savings bank, or trust company and the phrase 'interlocking relationship involving a member bank' as used in this section refers to the particular interlocking services as director, officer or employee existing on that date and not to interlocking relationships existing as between institutions. Therefore, since Mr. Miller was not serving as president of the Colonial Trust Company, Baltimore, Maryland, on August 23, 1935, the exception set forth in section 2(c) of the revised Regulation L is not applicable to such service and, accordingly, he may not serve as president of the Colonial Trust Company while serving at the same time as a director of The National Marine Bank of Baltimore, Baltimore, Maryland, unless such service would come within some of the other exceptions contained in section 8, as amended, or the Board's revised Regulation L.

"In this connection, there is inclosed a copy of a letter dated January 13, 1936, from Mr. Miller, addressed to the Comptroller of the Currency and referred to the Board of Governors of the Federal Reserve System for reply relative to his services with these banks. It will be appreciated if you will make appropriate disposition of the inquiry contained in Mr. Miller's letter of January 13, 1936 to the Comptroller of the Currency."

Approved unanimously.

1/24/36

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Thereupon the meeting adjourned.

Chester Morice
Secretary.

Approved:

W. A. ...
Chairman.