

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, February 17, 1936, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Morrison

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

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on February 5, 6 and 7, 1936, 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:

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

"Reference is made to your letter of February 6 in regard to the election of a director for the Helena branch, in which you ask whether there is any reason to believe that the Board of Governors will take any action which will allow the appointment of a director of a branch of a Federal reserve bank when that director has already served six consecutive years or more. As you know, the Board of Governors on January 9, 1935, amended its regulations so as specifically to provide that no director of a branch other than the managing director shall be reappointed for a term immediately following six or more years of continuous service as a director. This applies to all directors whether appointed by the board of directors of the bank or by the Board of Governors, except the managing director. This regulation has not been amended or rescinded and the Board as now constituted has not given any consideration to any revision of the regulation. Consequently, you may advise your board of directors that the regulation remains in full force and effect."

Approved unanimously.

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

"Referring to your letter of February 7, the Board approves the reappointment by the Board of Directors of the Federal Reserve Bank of Kansas City of Messrs. R. L. Gray, Walter J. Berkowitz, D. Bruce Forrester, Ed S. Miller, and L. F. Rooney as members of the Industrial Advisory Committee for the year ending February 28, 1937."

Approved unanimously.

Letter to the board of directors of "The Dollar Savings and Trust Company", Youngstown, Ohio, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's revised Regulation "H" and the following special conditions, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "7. Such bank shall make adequate provision for depreciation in its banking houses.
- "8. As soon as practicable, such bank shall dispose of any shares of its own stock held as collateral to its loans.
- "9. Prior to admission to membership such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$350,811.77 as shown in the report of examination of such bank as of December 16, 1935, made by examiners for the Federal Reserve Bank of Cleveland, and, in addition thereto, shall charge off or otherwise eliminate \$70,400, the remainder of the amount which, according to such report of examination, the bank has agreed to pay as its share of the loss sustained in the liquidation of the Second National Bank of Youngstown.
- "10. Prior to admission to membership, the board of directors of such bank shall adopt a resolution authorizing the interchange of reports and information regarding such bank between the Federal Reserve Bank of the district in which such bank is located and all State or Federal supervisory authorities having jurisdiction of such bank."

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Approved unanimously, together with a letter to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Dollar Savings and Trust Company', Youngstown, Ohio, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Ohio for his information.

"The papers submitted with the bank's application contain a copy of the authorization given by the State Superintendent of Banks in June, 1920, to the establishment of a branch at Struthers, Ohio, and it is, therefore, assumed that your counsel is satisfied that the bank 'has established and is operating' this branch 'in conformity with the State law', as required by section 9 of the Federal Reserve Act, but it will be appreciated if you will furnish the Board with advice to that effect.

"In order that the Board's records may be complete, it will also be appreciated if you will forward to the Board a copy of the certificate issued by the State authorities to the bank to commence business, if such a certificate was required at the time of its organization in 1887, and, in the light of the Board's letter of December 26, 1934 (X-9060), a copy of the form of capital debentures which the bank issued to the Reconstruction Finance Corporation."

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the 'Ann Arbor Savings and Commercial Bank', Ann Arbor, Michigan, became a member of the Federal Reserve System on February 15, 1936, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,

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- "2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

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

"This refers to your letter of January 30, 1936, concerning whether certain real estate corporations are affiliates of San Jacinto National Bank, Houston, Texas, and, if so, whether the bank may lawfully make loans to such corporations secured by real estate mortgages.

"The question whether such corporations are affiliates of the national bank apparently comes within the jurisdiction of the Comptroller of the Currency and, accordingly, has been referred to him with the request that he advise the bank directly, sending copies of his letter to you and the Board.

"The Board is of the opinion that any loans by member banks to their affiliates which are subject to the provisions of section 23A of the Federal Reserve Act must be secured by collateral such as is described in the second paragraph of that section. In other words, they must be secured by collateral in the form of (1) stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan of at least 20 per centum more than the amount of the loan or 10 per centum more than the amount of the loan if the collateral consists of obligations of any State or of any political subdivision or agency thereof, or (2) obligations of the United States, the Federal Intermediate Credit Banks, the Federal Land Banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation, or (3) such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve Banks. The Board's views concerning whether real estate mortgages conform to such requirements were expressed in a ruling published on page 566 of the Federal Reserve Bulletin for September, 1933, and subsequently referred to, in another connection, in a ruling published on page 395 of the Federal Reserve Bulletin for June, 1935. Apparently neither the real estate corporations in question

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"nor the proposed loans by San Jacinto National Bank come within any of the exceptions set out in the third paragraph of section 23A of the Federal Reserve Act and that section is applicable if such corporations are affiliates."

Approved unanimously.

Letter to Mr. Herbert Ailes, Cashier, First National Bank and Trust Company, Waynesburg, Pennsylvania, reading as follows:

"This refers to your letter dated January 24, 1936, regarding the question whether your bank may pay interest on a deposit of the Borough of Waynesburg.

"The deposit in question may not be classified as a savings deposit under the definition contained in section 1(e) of Regulation Q because, in the opinion of the Board, the Borough of Waynesburg may not be considered as an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, within the meaning of such definition.

"There is, however, nothing in Regulation Q to prevent your bank from entering into a contract with the Borough of Waynesburg under which the funds in question will be left with your bank as a time deposit, as defined in section 1(b) of Regulation Q. If this deposit is converted into a time deposit, the rate of interest payable thereon will depend upon the maturity date of the deposit or the period of written notice required to be given before withdrawal. The rates payable upon time deposits are stated in the supplement to Regulation Q, a copy of which is inclosed herewith.

"It is hoped that the above explanation will answer the question which you have in mind. If you have any further inquiries regarding this matter or any similar matter, it is believed that you may find it more convenient to communicate with the Federal Reserve Bank of Cleveland, which will be glad to answer your inquiries."

Approved unanimously.

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

"This refers to your letter of January 20, 1936, to Mr. Paulger, with regard to apparent criminal violations which have been discovered at the Farmers State Bank, Flandreau, South Dakota. You have advised that you have the cooperation

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"of the State Banking authorities and the Federal Deposit Insurance Corporation and that an audit of the Farmers State Bank is being made to develop full information. You suggested that it might be harmful to your understanding with the Superintendent of Banks of South Dakota to report the apparent criminal violations to the local United States District Attorney at this time and that it would be advisable not to make such a report until the audit has been submitted and the extent of the defalcations is evident.

"The Board appreciates the desirability of working in complete harmony with the State banking authorities. However, the Department of Justice has a responsibility to discharge in connection with violations of criminal provisions of the Federal statutes, and the Board feels that in any case where an apparent violation of such provisions is discovered in a State member bank the Department of Justice should be given an opportunity to participate in the matter as soon as possible. In view of your feeling with regard to the present case, it is requested that you do not make a report to the local United States District Attorney, but furnish the Board with a report regarding the case which will be suitable for transmission by the Board to the Department of Justice. It is also suggested that in this report you make any suggestions which you deem advisable relating to instructions which you feel it would be desirable for the Department of Justice to give to its local United States District Attorney with reference to cooperation in this case with your office and the State authorities. This phase of the matter has been discussed informally with a representative of the Department of Justice and it is understood that that department will be glad to receive any such suggestions. It is also suggested that you diplomatically explain the Board's position to the State banking authorities in order to prevent any misunderstanding with such authorities.

"In this particular case, please furnish the Board with four copies of your report, rather than the three copies which are usually furnished in connection with criminal violations in State member banks."

Approved unanimously.

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

"Reference is made to your letter of January 28 requesting information as to whether, in case of dismissal of an employee

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"whose age is 52 years, six months, who has had seventeen and a third years of service, and whose terminal salary is \$4,000, a dismissal wage of \$3,480 may be paid in a lump sum or whether this dismissal wage should be paid to the Retirement System to provide an annuity at age 55.

"Under the provisions of the Board's letter X-9405 the Federal Reserve Bank of Chicago may make a dismissal wage payment to the employee in question of not to exceed \$3,480, of which an amount equal to not more than two months' salary may be paid in a lump sum to the employee. Any amount contributed by the bank in addition to such lump sum payment must be paid to the Retirement System to provide, together with the employee's accumulated contributions, an annuity beginning at or after age 55. The employee will have the option of leaving his accumulated contributions plus the bank's special contribution on deposit with the Retirement System at interest with the privilege of having it converted into an immediate annuity at any time after he attains age 55 or of using his accumulated contributions plus the bank's special contribution to the Retirement System to purchase at once an annuity deferred to any age between 55 and 65."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Moriel
Secretary.

Approved:

W. Stiles
Chairman.