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

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on February 18, 19, 20 (two meetings), 21, 24, 25, 26, 27, 28, 29, March 2, 3 (two meetings), 4, 5, 6, 7, 9, 10, 11 and 12, 1936, were approved unanimously.

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

Bond, in the amount of $100,000, executed under date of March 16, 1936, by Mr. Frederic A. Delano as Federal Reserve Agent at the Federal Reserve Bank of Richmond.

Approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the New York and San Francisco banks on March 19 and by the Cleveland and

Chicago banks on March 20, 1936, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of March 13, 1936, advising that, subject to the approval of the Board of Governors of the Federal Reserve System, the board of directors of your bank, at its meeting on that date, appointed Mr. John S. Sinclair as President of the Federal Reserve Bank of Philadelphia, and Mr. William H. Hutt as First Vice President of the bank, with salaries at the rates of $25,000 and $20,000 per annum, respectively. You were advised in my telegram of the same date of the Board's approval of the appointments, and of the approval for Messrs. Sinclair and Hutt, for the remainder of the current year, of salaries at the rates of $22,000 and $18,000 per annum, respectively, if fixed by your directors at those rates.

"Your letter also requests approval by the Board of the payment authorized by your directors to Mr. George W. Norris, on his retirement, of the sum of $15,000, which is equivalent to six months' salary. The Board of Governors of the Federal Reserve System feels that the long service of Mr. Norris as Governor of the Federal Reserve Bank of Philadelphia fully justifies the proposed payment and is pleased to give its approval thereto. Your letter does not indicate whether the payment would be made to Governor Norris in cash or to the Retirement System for the purpose of supplementing the retirement allowance to which he is entitled under the rules and regulations of the Retirement System, and your advice on this point will be appreciated."

Approved unanimously.

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

"This refers to Mr. Hill's letter of January 7, 1936, inquiring (1) whether the restrictions contained in section 22(g) of the Federal Reserve Act and the Board's Regulation O include loans to executive officers of member banks from

"trust funds administered by such banks and (2) whether executive officers of member banks are required to report to the board of directors of such banks loans made to them from trust funds held by other banking institutions. The Board has noted Mr. Hill's statement that the answer to the first inquiry will only be of interest to member trust companies which are not subject to the condition of membership to the effect that a member bank shall not invest trust funds held by it as a fiduciary in obligations of the bank's directors, officers, or employees.

"The primary purpose underlying the enactment of section 22(g) was to prevent executive officers of member banks from using their influence to obtain credit from the banks they serve. Congress also apparently felt that the board of directors of a member bank should be advised as to the indebtedness of the executive officers of such bank to other banks. In the amendment to section 22(g) made by the Banking Act of 1935, Congress expressly conferred upon the Board the authority to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of such subsection in accordance with its purposes and to prevent evasions thereof. The Board feels that an indebtedness of an executive officer of a member bank arising as the result of the lending of trust funds administered by a bank falls within the purposes of the law, since his opportunity to use his influence to obtain a loan of such funds is present, and it would seem that the board of directors of a member bank should be informed of an indebtedness of its executive officers arising out of the lending of funds of trusts administered by other banks. Moreover, there is no justification, under well recognized rules of statutory construction, to place a restricted meaning upon the provisions of such section so as to exclude an indebtedness arising out of the lending of trust funds by a bank.

"Since section 22(g) includes an indebtedness arising out of the lending of trust funds, the question might be raised as to what effect the $2500 exception contained in such subsection might have on the provision in section 11(k) of the Federal Reserve Act which prohibits a national bank exercising trust powers from lending funds held in trust to any of its officers, directors, or employees. The provision in section 22(g) can be applied to loans of the bank's own funds and thus be given full effect even though it is not considered as repealing the provision in section 11(k) just above referred to. Under the usual rules of statutory construction, the repeal of statutes by implication is not favored where the provisions of both statutes involved can be given full effect and, in the circumstances, it is the opinion of the Board that section 22(g)

"does not in any manner affect the provision in section 11(k) referred to herein.

"As you know, it is contrary to the established principles regarding the handling of trust funds for a trustee to have any interest in the funds of a trust which he is administering and likewise such principles are applicable to executive officers of a corporate trustee. These principles are so well established that some States have enacted laws forbidding corporate fiduciaries from lending trust funds to their own officers, directors, or employees; as noted above Congress has prohibited national banks from lending trust funds to their own officers, directors, or employees; and the Board has prescribed a similar prohibition in the form of a condition of membership applicable to State member banks. While there may be some State member banks which are not subject to the condition and the laws of the State under which they operate may not prohibit such loans, the Board feels that such banks should not lend trust funds to their own executive officers.

"In view of all the circumstances, the Board is of the opinion that the restrictions contained in section 22(g) of the Federal Reserve Act and the Board's Regulation O include loans to executive officers of member banks from trust funds administered by such banks and likewise an indebtedness of an executive officer of a member bank to another bank arising out of the lending of trust funds should be reported to the board of directors as provided in section 5 of the Board's Regulation O."

Approved unanimously.

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

"According to the report of examination of the Peoples Bank of Montross, Virginia, Incorporated, as of October 28, 1935, the indebtedness of inactive Vice President Charles E. Stuart increased since the time of the previous examination from $500 direct and $340 indirect to $3,100 direct and $2,740 indirect. The information available, however, does not show whether the additional indebtedness was incurred prior or subsequent to August 23, 1935, the date of the enactment of the Banking Act of 1935.

"For the same reason underlying the position taken by the Board with regard to reporting previous borrowings of Vice President Stuart, as expressed in its letter of June 20, 1935 to Mr. Hoxton, it is not felt necessary to report any

"indebtedness of this officer which was incurred prior to the enactment of the Banking Act of 1935. If, however, the additional indebtedness was incurred subsequent to the date of the enactment of the Banking Act of 1935, it would fall within the scope of Regulation O, and, in this connection, your attention is called to the Board's telegram of January 13, 1936 (X-9432). It would be appreciated, therefore, if you will advise of the date the additional indebtedness was incurred and whether any action has been taken in the matter.

"In view of the experience in connection with the borrowings of Vice President Stuart from his bank, as outlined in Mr. Hoxton's letter of June 7, 1935, it may be possible that this officer has gained the impression that because of his being inactive in the management of the bank there are no legal restrictions on his borrowings from it. In order, therefore, that the bank and the officer may better appreciate the position of the Board and your office as regards the administration of section 22(g) of the Federal Reserve Act, it might be advisable to call their attention to the definition of 'executive officer' contained in the Board's Regulation O, and the fact that the Banking Act of 1935 repealed the criminal penalty for violations of section 22(g) of the Federal Reserve Act and placed upon the Board and the Federal Reserve Agents a more direct responsibility for the administration of this subsection."

Approved unanimously.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Mr. Awalt's letter of January 22, 1936, requesting an expression of the Board's views with respect to the question whether, under section 22(g) of the Federal Reserve Act, a loan which was made by a member bank in June 1935, to an individual who was not at that time an executive officer of the bank may now be renewed or extended at maturity where such individual is now an executive officer of the bank within the meaning of that term as defined in the Board's Regulation O.

"As you know, section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1935, provides that loans made to executive officers of member banks prior to June 16, 1933, may be renewed or extended, under certain conditions, for periods expiring not more than five years from that date. Since, under the facts here stated, the loan in question was not made

"to an executive officer of a member bank prior to June 16, 1933, a renewal of such loan would not fall within the scope of this provision of section 22(g) of the Federal Reserve Act and the making of such a renewal would not therefore be subject to the conditions prescribed in the statute or in section 4 of the Board's Regulation O.

"A renewal of a loan in the circumstances described would be prohibited by the statute only if such renewal may be regarded as a loan or extension of credit within the meaning of its provisions. As you know, the Board has expressed the view, in letters addressed to you under dates of July 17, 1934 and March 28, 1935, that the renewal of an existing loan does not constitute an extension of credit within the meaning of section 23A of the Federal Reserve Act which relates to loans and extensions of credit to affiliates of member banks. It will be recalled that, while the question was not then directly involved, the Board expressed the view in its letter of March 28, 1935, that the proviso in section 22(g) of the Federal Reserve Act, permitting the renewal of loans made to executive officers prior to June 16, 1933, may properly be interpreted as imposing a limitation upon the period during which such loans may be renewed or extended, rather than as conferring a right of renewal or extension which did not otherwise exist. Moreover, as indicated in that letter, it is believed that under the more usual interpretation of the words 'extension of credit', such words mean a grant or an allowance of credit rather than an extension of the time of payment of a debt already in existence.

"It is the opinion of the Board, therefore, that the renewal or extension of the loan made subsequent to June 16, 1933, referred to in Mr. Awalt's letter, is not to be regarded as a loan or extension of credit within the meaning of the prohibitions of section 22(g) of the Federal Reserve Act."

Approved unanimously.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Mr. Lyons' letter of January 16, 1936, presenting a case involving the question whether liability of an executive officer of a member bank on a mortgage loan insured under the provisions of Title II of the National Housing Act and held by a bank is excepted from the provisions of section 22(g) of the Federal Reserve Act.

"Under the provisions of Title II of the National Housing Act, a bank as well as other financial institutions may be

"approved by the Federal Housing Administrator as a 'mortgagee', and such term is defined to include the original lender under a mortgage. Any person desiring to obtain a loan secured by a mortgage which may be insured under such Act deals directly with an approved mortgagee. The liability on mortgage loans insured under the provisions of the National Housing Act is not excepted from the provisions of section 22(g) of the Federal Reserve Act and liability of an executive officer of a member bank on such loans held by a bank is therefore subject to the provisions of that section. Inasmuch as a bank may deal directly with the person desiring to obtain such a loan, the opportunity for an executive officer of a member bank to use his influence in the obtaining of such a loan is present to the same extent as in other types of loans and it appears, therefore, that such a transaction would fall within the purposes of the law as well as its terms.

"In the particular case presented by Mr. Lyons, which arose out of an inquiry he received from a national bank, it appears that the insured mortgage loan is on the property of the wife of an executive officer of a member bank and that the payment of such loan is predicated upon her husband's income. It is not clear whether the husband is liable to a bank for the payment of the loan, or whether the loan was made under such circumstances as to indicate an attempt to evade the provisions of section 22(g). In the circumstances, the Board cannot undertake to advise you definitely whether the particular case comes within the provisions of section 22(g). However, the fact that the payment of the loan to the wife of the executive officer is predicated upon his income at least indicates that he may be liable on the obligation and would warrant a further inquiry by your office as to all of the circumstances involved in order to determine whether the executive officer of the national bank is violating the provisions of section 22(g)."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morris
Secretary.

Approved: M S Eccles
Chairman.