

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 27, 1936, at 4:00 p. m.

PRESENT: Mr. Broderick, Chairman pro tem  
Mr. Szymczak  
Mr. McKee  
Mr. Ransom

Mr. Morrill, Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Goldenweiser, Director of the Division  
of Research and Statistics

Mr. Clayton stated that Chairman Eccles, who was in Cincinnati, had called him on the telephone and stated that Mr. Stevens, Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago, had advised Mr. Eccles on the telephone that he had been offered a position which he wished to accept as of April 1, 1936, and that he was under the necessity of making an immediate decision in order to avoid the possibility of losing the opportunity. Mr. Stevens stated, Mr. Clayton said, that he would like, therefore, to tender his resignation as Class "C" director of the Chicago bank and as Chairman and Federal Reserve Agent as of the close of March 31, 1936, and to know whether the Board would accept his resignation as of that date, and, if so, whether his resignation would have any effect on the payment of the sum of \$6,000 authorized by the Board on February 29, 1936. He stated also that, if the Board were willing to accept his resignation as of the close of March 31, he would immediately place in the mails a formal letter of resignation.

Mr. Clayton advised the other members of the Board that Chairman Eccles had indicated to him that he would favor the acceptance of Mr. Stevens' resignation and had suggested that the matter be taken up by

3/27/36

-2-

the members of the Board for consideration.

Mr. McKee moved that Mr. Stevens' resignation as Chairman and Federal Reserve Agent be accepted as of the close of business on March 31, 1936, with the understanding that Mr. Stevens' salary will be terminated at that time, but that this action will not affect the payment of the sum of \$6,000 authorized by the Board on February 29, 1936, except that such payment may be made as of April 1 instead of May 1, 1936.

Carried unanimously.

Mr. Szymczak then moved that Mr. Stevens' resignation as Class "C" director be accepted to take effect simultaneously with his resignation as Chairman and Federal Reserve Agent.

Carried unanimously.

The Secretary was requested to advise Mr. Stevens immediately of the action taken by the Board.

At this point Mr. Goldenweiser left the meeting and 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. Kimball and Mr. Clark, Secretaries of the Federal Reserve Banks of New York and Atlanta, respectively, stating that the Board approves the establishment without change by the New York bank on March 26 and by the Atlanta bank today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 23, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mrs. Ruth

3/27/36

-3-

H. Reehling, formerly Mrs. Ruth H. Porter, who was employed in the Board's Division of Research and Statistics as a statistical clerk for a period of twelve years ending April 3, 1935, be reappointed, effective April 1, 1936, as a clerk in the Division, with salary at the rate of \$2,000 per annum, subject to her passing satisfactorily the usual physical examination for admission to the Retirement System of the Federal Reserve Banks.

Approved unanimously.

Letter to the board of directors of "The State Bank of St. Johns", St. Johns, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's 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 Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. As soon as practicable, such bank shall dispose of any shares of its own stock held as collateral to its loans.
- "6. Prior to admission to membership such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$3,142.97, as shown in the report of examination of such bank as of January 20, 1936, made by an examiner for the Federal Reserve Bank of Chicago."

Approved unanimously, for transmission to the bank through the Federal Reserve Agent at the Federal Reserve Bank of Chicago.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue a limited

3/27/36

-4-

voting permit to the "Vollmer Security Company", Lewiston, Idaho, entitling such organization to vote the stock which it owns or controls of "The First National Bank of Lewiston", Lewiston, Idaho, at any time prior to June 1, 1936, to authorize the issuance by such bank of common and/or preferred stock, to approve or ratify the purchase of assets and the assumption of liabilities of The First National Bank of Grangeville, Grangeville, Idaho, Craigmont State Bank, Craigmont, Idaho, and First Bank of Genesee, Genesee, Idaho, by The First National Bank of Lewiston for the purpose of converting such banks into branches of The First National Bank of Lewiston, and to make such amendments to the articles of association and/or by-laws of such bank and take such other action as may be necessary for such purposes, provided that all action taken shall be in accordance with a plan or plans approved by the appropriate supervisory authorities.

Approved unanimously.

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

"This refers to former Deputy Comptroller Awalt's letter of January 24, 1936, inquiring whether a director of a national bank who is also a majority shareholder and who holds no other position of official title in the bank, but directs the policies of the bank on all major matters, is present in the bank for an hour or two each day, and is paid a monthly salary of \$150.00, should be considered an 'executive officer' within the scope of the Board's Regulation O, relating to loans to executive officers of member banks, and also whether such a director would be considered an executive officer even though he received no salary.

"Under the authority contained in section 22(g) of the Federal Reserve Act, to define the term 'executive officer'



3/27/36

-5-

"and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of such section in accordance with its purposes and to prevent evasions thereof, the Board has defined the term 'executive officer' to mean:

'the chairman of the Board of Directors, the President, every Vice President, the Cashier, Secretary, Treasurer, and Trust Officer of a member bank, and, in addition, every other officer of a member bank who participates in the management of the bank or any branch thereof, regardless of whether he has an official title or whether his title contains a designation of assistant, and regardless of whether he is serving without salary or other compensation; but such term does not include a director or member of a committee who is not also an executive officer within the foregoing definition.'

The underscored portion of the definition quoted above is broad and was intended to cover cases where attempts may be made to evade the provisions of the law. You will also note that a director who is not also an executive officer as defined above is not included in the definition.

"The determination as to whether a director who has no other official title in the bank is also an executive officer of a member bank within the meaning of the definition quoted above depends upon the nature of the duties which he performs and other facts and circumstances involved in a particular case. The general statement contained in Mr. Awalt's letter that the person involved 'directs the policies of the bank on all major matters', the statement that he is 'present in the bank for an hour or two each day', and the fact that he receives a substantial monthly salary--\$150.00 per month--indicates clearly that such person is not acting solely in a capacity usual to that of a director, but that he is performing in addition, in his individual capacity, the functions of an executive officer of the bank. Accordingly, on the basis of these facts, it is the opinion of the Board that such person should be considered an executive officer of the bank.

"In view of all the other facts involved in this case, the Board feels that, even if such person should not receive a monthly salary, this would not justify a conclusion that he is not an executive officer."

Approved unanimously.

3/27/36

-6-

Memorandum dated March 21, 1936, from Mr. Paulger, Chief of the Division of Examinations, referring to the Board's letter of April 29, 1933 (X-7425), with respect to indebtedness of officers and employees of the Federal reserve banks, and recommending that the Board's examiners be authorized to make a review of the reports of indebtedness of officers and employees of the Federal reserve banks at the time of examination of the various banks, and that Mr. Paulger be authorized to instruct Mr. Drinnen, Federal Reserve Examiner, in a letter reading as follows:

"As you know, the Board, in its letter of April 29, 1933 (X-7425), requested that the Agents submit a report showing any indebtedness of the Agents and members of their staffs as of July 1, 1933. Later instructions, under date of December 26, 1935 (B-1125) provide that such reports may be submitted annually as of July 1. In the letter of April 29, 1933, above referred to, the Board suggested that the general principles outlined therein regarding the reporting of indebtedness of Agents and members of their staffs also be applied to the members of the staffs of the Federal reserve banks, except that the reports be made to the boards of directors instead of to the Board.

"It is believed that it would be desirable to have the reports of examination of the Federal reserve banks reflect the extent to which the suggestions of the Board in the letter X-7425 regarding reports of indebtedness of the bank's staff, as distinguished from the Federal Reserve Agent's staff, have been followed. The matter has been submitted to the Board, and, in accordance with the authorization received, it is requested that hereafter in connection with the examinations of Federal reserve banks a review be made of the reports rendered to the board of directors of the Federal reserve bank of the indebtedness of officers, heads of departments, and other employees occupying responsible positions and that the confidential section of the report of examination include a reference to the review and specific information as to the indebtedness of each officer, including the amount, to whom payable, the purpose of the borrowing (if information is available), and any other data

3/27/36

-7-

"in connection therewith which it is felt should be brought to the attention of the Board. Comment as to the indebtedness of other employees need be set forth in the report only if, in the examiner's opinion, such indebtedness is deserving of special notice or comment. The report need not include, of course, information regarding current bills incurred for ordinary and household expenses, but should include indebtedness incurred to others to obtain funds for the payment of such bills."

Approved unanimously.

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

"This refers to your letter of February 3, 1936, relating to the applicability of the provisions of section 23A of the Federal Reserve Act to certain loans and extensions of credit by Norristown-Penn Trust Company, Norristown, Pennsylvania, a member bank, to its affiliate, Pennsylvania Real Estate Exchange, all of whose stock is owned by the bank.

"It appears that under the usual practice in connection with the foreclosure of real estate liens by Norristown-Penn Trust Company, Pennsylvania Real Estate Exchange acquires title to the real estate and Norristown-Penn Trust Company charges the amount of the defaulted obligation against Pennsylvania Real Estate Exchange as an unsecured extension of credit. Prior to the enactment of the Banking Act of 1935 this practice was in violation of section 23A of the Federal Reserve Act, and your inquiry relates to the applicability of the following exception which was incorporated into that section by the Banking Act of 1935:

'The provisions of this section shall likewise not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank \* \* \* \* .'

The Board concurs in your counsel's opinion that, considering the substance of the transactions involved and the intent of the above-quoted exception, such exception should be construed to apply to extensions of credit of the kind described above. In view of such exception, the Board is also of the opinion that the provisions of section 23A of the Federal Reserve Act are not now applicable to such extensions of credit even though they were made before the



3/27/36

-8-

"enactment of the Banking Act of 1935.

"Your inquiry also relates to loans by Norristown-Penn Trust Company to Pennsylvania Real Estate Exchange for the purpose of enabling that corporation to pay carrying charges on the real estate acquired by it in the above-described manner. While the question is not entirely free from doubt, the Board believes that, in order to carry out the real intent of the exception quoted above, it should be construed as applying also to indebtedness arising out of incidental advances subsequently made by the bank in good faith to protect itself against loss on the original indebtedness."

Approved unanimously.

Thereupon the meeting adjourned.

Robert M. Mowice  
Secretary.

Approved:

J. A. Brown  
Chairman pro tem.