

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, April 4, 1936, at 11:00 a. m.

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

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

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. Martin, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of March 26, 1936, transmitting with a favorable recommendation the request of the 'Bank of Canton', Canton, Georgia, for a further extension to April 1, 1937, of the time within which it may, in accordance with the requirements of membership condition numbered 17, dispose of the remaining 90 shares of stock of the Canton Cotton Mills, carried in the bank's investment account at \$13,500. The Board has previously granted three extensions of time within which the provisions of condition of membership numbered 17 might be complied with, the last extension expiring on April 1, 1936, and it has been noted that, in addition to disposing of the 10 shares of bank stock also covered by the condition of membership, the bank has disposed of only 30 of the 120 shares of stock of the Canton Cotton Mills. It has been noted also that the directors of the bank have stated that the inability to sell the stock is due to economic conditions now prevailing and not to lack of value in the stock and that, in the event the requested extension of time is granted by the Board, every effort will be made to dispose of the remainder of the stock within the additional time allotted.

"In view of all the circumstances and the fact that the

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"State Superintendent of Banks has granted his permission for the institution to carry the stock until April 1, 1937, the Board, in accordance with your recommendation, extends to April 1, 1937, the time within which the Bank of Canton may comply with the provisions of condition of membership numbered 17 and it is requested that you advise the bank accordingly."

Approved unanimously.

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 March 30, 1936, in which you request to be advised as to the intent of condition of membership numbered 4 prescribed in connection with the admission of The Peoples Bank, Bishopville, South Carolina, to membership in the Federal Reserve System in 1922 and which reads as follows:

'That all loans shall be submitted not less than once in each month to your Board of Directors and their approval or disapproval noted in the minutes.'

"The condition was prescribed by the Board at the suggestion of the Executive Committee of the Federal Reserve Bank of Richmond and the Board has no information as to the construction which the Executive Committee placed upon the condition when submitting the recommendation in connection with the application for membership. It is not thought, however, that the intent of the condition was to require the directors to review at least once a month all loans held by the bank. The purpose of the condition, of course, was to insure that the directors would keep themselves informed as to the bank's loaning operations and properly discharge their responsibilities for the credit policies of the bank. It is believed, therefore, that a reasonable construction of the condition would require that the directors review at least once a month all loans made or renewed since the previous review and that the approval or disapproval of the directors as to such loans be noted in their minutes. As a matter of sound banking procedure it would seem that at such meetings the directors in the discharge of their responsibilities would review important loans maturing prior to the next meeting and advise the officers as to the action which should be taken in connection therewith."

Approved unanimously.

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

"Reference is made to Mr. Peyton's letter of February 6, 1936, with which was transmitted the supplementary application of 'The First National Bank and Trust Company in Sioux Falls', Sioux Falls, South Dakota, for permission to act as agent or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located; authority to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics having previously been granted this institution.

"Consideration has been given to the information submitted by Mr. Peyton and by the Comptroller of the Currency, from which it appears that the condition of the applicant bank, so far as its assets are concerned, is generally satisfactory. It appears further, however, from the national examiner's report of examination as of January 27, 1936, and from preceding reports, that the bank has sustained heavy losses in the past and has been under severe criticism with regard to violations of law, unsound banking practices, and unsatisfactory management, including the domination of its affairs by President Baker; that the trust department has been poorly handled; that the trust officer evidences neither ability nor interest in the affairs of the department, and that the assistant trust officer, although capable, is not allowed sufficient time to properly care for the trust accounts now held. Particular criticism is made of the granting of two excessive loans which the examiner states were willful violations which were looked upon by the management as very minor matters and were approved by all members of the board of directors. It is recognized that the latest report of examination reflects material improvement in both the commercial and trust departments of the bank, partly due to strengthening of the management through the employment early in 1935 of Vice President Hayter. The examiner states, however, that President Baker still dominates and in many instances not to the best interests of the bank.

"In view of all the facts and circumstances involved, and of the adverse recommendation of the Comptroller of the Currency, the Board is unwilling at this time to grant the additional authority applied for. You are requested, therefore, to

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"advise The First National Bank and Trust Company in Sioux Falls, Sioux Falls, South Dakota, that the Board has denied its application."

Approved unanimously.

Letter to Mr. Case, Chairman of the Federal Reserve Bank of New York, reading as follows:

"The Board has reviewed the report of examination of the Federal Reserve Bank of New York made as at the close of business January 4, 1936, copies of which were left with you and President Harrison.

"It has been noted (page 28) that penalties aggregating \$600.45 chargeable against five member banks in New York and Buffalo for deficient reserves during the period August 24 to August 27, 1935, were waived inasmuch as the banks had not been officially advised until August 28, 1935, by the Reserve Bank that, under the provisions of the Banking Act of 1935, reserves must be maintained against Government deposits. The examiner reports that it was due to an oversight that the waiver of such penalties was not referred to the Board of Governors for approval as provided in the Board's letter of April 14, 1933 (X-7411), and it has been noted from President Harrison's letter of March 26, 1936, that steps have been taken to prevent a recurrence of a similar oversight. In view of the circumstances, and in order that there may be no question in the future as to the action taken, the Board authorizes the waiver of the penalties referred to.

"The Board has noted the comments contained in your letter of March 26, 1936, and President Harrison's letter of the same date relative to matters referred to in the report of examination."

Approved unanimously.

Letter to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, prepared in accordance with the action taken at the meeting of the Board on March 25, 1936, and reading as follows:

"This refers to Mr. McRae's letters of January 2, 1936, and their inclosures, relating to voting permit applications

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"of 'Shawmut Association' and 'The National Shawmut Bank of Boston', both of Boston, Massachusetts. As you probably know, the matters referred to therein have since been discussed informally by representatives of the applicants and the Board.

"Careful consideration has been given to the applicants' contention that they should be 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. However, the Board feels that it cannot properly make such a determination with respect to either applicant. While perhaps the ratio of the value of bank stock owned or controlled to the value of all assets should be considered in connection with other facts, it is felt that such ratio is not determinative and that other facts may not be ignored. The Board believes that, in making such determinations, it cannot properly lose sight of the fact that the fundamental purpose of the holding company affiliate legislation was to regulate group banking and that determinations should not be made which would tend to defeat that purpose. While the stock of the subsidiary banks of this group is owned by Shawmut Association, The National Shawmut Bank of Boston controls such stock through its control over the selection of trustees of Shawmut Association and has a financial interest by reason of its right to share in the earnings of Shawmut Association. Also, the applicants exercise supervision over the subsidiary banks, acting through officers of The National Shawmut Bank of Boston.

"Both of the applicants object to the following provision of paragraph numbered 7 of the form of agreement accompanying the Board's letter of December 3, 1935, (X-9385):

'and that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments.'

"In view of the restrictions and limitations imposed upon national banks by law, the Board feels that such a provision is not essential where the holding company affiliate is a national bank and that, accordingly, there is no objection to authorizing its omission in such a case. Hence, the Board hereby amends the authorization contained in its ANCILDALE telegram of December 11, 1935, relating to The National Shawmut Bank of Boston, to provide that the above-mentioned paragraph shall read as follows in the agreement to be executed by such bank as a condition to the issuance of a general voting permit to it:

'That the management of the undersigned will be, and the undersigned will take such action within its power as may be necessary to cause the management of each of

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"its subsidiaries to be, conducted under sound policies governing its financial and other operations, including statements issued relating thereto; that the undersigned will maintain a sound financial condition; and that its net capital and surplus funds shall be adequate in relation to the character and condition of its assets and to its liabilities and other corporate responsibilities.'

"The Board does not feel that it should authorize any modification of such paragraph in connection with the agreement to be executed by Shawmut Association. In connection with the matters which it is required by law to consider in granting voting permits, the Board must consider the character of the holding company affiliate's business and investments, and the Board feels that it should provide requirements to assure that during the life of the voting permit the general character of the business and investments will not be changed in a way which might have an adverse effect on the condition of the holding company affiliate or its relationships with its subsidiary banks. However, the Board has no intention or desire to exercise detailed supervision over the investments of the applicant or to pass upon individual investments and it is felt that the pertinent provisions of the agreement which refer to a change in the 'general character' of business or investments do not indicate such supervision is contemplated.

"Shawmut Association states 'To follow the regulations which you insist upon, we would have to mark up and down on our books, all securities every month'. Paragraph numbered 1 of the standard form of agreement requires the elimination of losses and certain depreciation in securities by the applicant as soon as practicable and in any event within two years. However, when the particular eliminations described in paragraph numbered 1 have once been made, such paragraph does not require any further eliminations. Under paragraph numbered 7, the applicant's management must be conducted under sound policies governing its financial and other operations, including statements issued relating thereto. While the Board feels that in the public interest the books and published statements of a holding company affiliate should correctly reflect the value of its assets and the amount of its liabilities, this provision of the agreement contemplates only such adjustments in the books of the holding company affiliate as would not interfere with its normal operations, would be required by sound accounting practice, and would be necessary to prevent misrepresentation to shareholders and the public.

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"The National Shawmut Bank of Boston suggests a change of a perfecting nature in paragraph lettered (A) of the agreement to be executed by it. While it is not believed to be essential, the Board authorizes the substitution of the words 'any of the undersigned's' for the words 'the undersigned or by any of its' in such paragraph of the agreement to be executed by that applicant and amends the authorization contained in its ANCILDALE telegram of December 11, 1935, accordingly.

"The Board extends to April 30, 1936, the time within which you may issue to The National Shawmut Bank of Boston and Shawmut Association the general voting permits authorized in its ANCILDALE telegrams of December 11, 1935. Please advise applicants in accordance with this letter."

Approved unanimously, together with
a letter to the Federal reserve agents
at all Federal reserve banks, reading as
follows:

"In its letter of December 3, 1935, (X-9385), relating to the issuance of general voting permits, the Board advised you that, as a condition to the issuance of such permits, each holding company affiliate would be required to execute an agreement in the form accompanying such letter, subject to any changes and with any additional provisions prescribed by the Board in the particular case.

"Paragraph numbered 7 of the form of agreement contains the following provision:

'and that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments.'

"In view of the restrictions and limitations imposed upon national banks by law, the Board has recently decided that such a provision is not essential where the holding company affiliate is a national bank. Therefore, in authorizing the issuance of general voting permits to national banks in the future, the Board will modify the above-mentioned paragraph of the required agreement to read as follows:

'That the management of the undersigned will be, and the undersigned will take such action within its power as may be necessary to cause the management of each of its subsidiaries to be, conducted under sound policies governing its financial and other operations, including statements issued relating thereto; that the undersigned will maintain a sound financial condition; and

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"that its net capital and surplus funds shall be adequate in relation to the character and condition of its assets and to its liabilities and other corporate responsibilities."

Appropriate action will be taken to modify in a similar manner the agreements heretofore executed by national banks.

"It may also be noted that, in authorizing the issuance of general voting permits to national banks, the Board has uniformly modified the standard form of agreement by providing that paragraphs numbered 1 and lettered (C) should be omitted and that paragraph numbered 4 should be changed to read as follows:

'That the undersigned will comply, and will take such action within its power as may be necessary to cause each subsidiary national bank or affiliate of such subsidiary national bank or of the undersigned to comply, with the recommendations or suggestions of the Comptroller of the Currency based upon any report of examination made to him pursuant to authority conferred by law and with the regulations or requirements of the Board of Governors of the Federal Reserve System made pursuant to authority vested in it by law;'

Letter to "The Atlantic National Bank of Jacksonville", Jacksonville, Florida, reading as follows:

"This refers to the general voting permit issued to your bank on December 24, 1935, and to the agreement executed by your bank on December 19, 1935, as a condition to the issuance of such permit.

"Paragraph numbered 6 of such agreement contains the following provision:

'and that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments.'

"Upon a further consideration of the matter, the Board has decided that, in view of the restrictions and limitations imposed on national banks by law, such a provision is not essential where the holding company affiliate is a national bank and, accordingly, should be omitted from the agreements hereafter required in such cases.

"The Board desires to avoid any discrimination against national banks which have heretofore received general voting permits, even though such discrimination may be merely ap-

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"parent. Accordingly, you are hereby advised that the Board will treat the above-quoted provision of the agreement executed by your bank as ineffective and that such provision will not be binding upon your bank."

Approved unanimously, together with similar letters to "The Citizens and Southern National Bank", Savannah, Georgia, "The First National Bank of Louisville", Louisville, Kentucky, and the "Mercantile National Bank at Dallas", Dallas, Texas.

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

"This refers to your letter of March 5, 1936, setting forth certain questions with particular reference to whether a loan by a member bank to a partnership in which one or more executive officers of the bank are partners having either individually or together less than a majority interest in the partnership would be considered as a loan or extension of credit to the executive officers involved, under the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O, by virtue of the usual rule of law which makes a partner individually liable for the debts of the partnership. In this connection, you point out that the terms 'loan' and 'extension of credit', as contained in section 1(c)(5) of Regulation O, include -

'Any other transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever, by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent.'

"Section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1935, provides that:

'Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection.'

This is the only provision in section 22(g) relating to partnerships and it seems clear that the prohibition of the section is only applicable to partnerships of the kind specifically described. Therefore, a loan by a member bank to a

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"partnership in which one or more executive officers of such bank have either individually or together less than a majority interest in the partnership is not included in the prohibition of such section.

"Since the law is not applicable to such a partnership, the definition, quoted above, is not construed as including the liability of an executive officer arising solely by virtue of the operation of law which makes him individually liable as a partner for the debts of the partnership in which he has less than a majority interest. It is apparent that, if this definition is construed to include such a liability, the provision relating to partnerships contained in section 22(g) would be disregarded. Therefore, an executive officer of a member bank may become indebted to such bank in an amount not exceeding \$2500, under the conditions and limitations prescribed in section 3 of the Board's Regulation O, exclusive of any indebtedness to the bank of a partnership in which he has less than a majority interest arising in the manner described above."

Approved unanimously.

Letter to the Federal reserve agents at all Federal reserve banks

reading as follows:

"There are inclosed herewith a copy of a letter dated February 28, 1936, from the President of the Federal Reserve Bank of New York, a copy of a letter dated March 2, 1936, from the Assistant Federal Reserve Agent at Cleveland, and a copy of a telegram dated March 6, 1936, from the Assistant Federal Reserve Agent at San Francisco, each of which presents certain questions arising under the provisions of the regulation of the Comptroller of the Currency governing the purchase of investment securities.

"Copies of these inquiries were referred to the Comptroller for a statement of his views concerning the questions presented therein. There are inclosed herewith copies of the Comptroller's replies and of the Board's letters to the President of the Federal Reserve Bank of New York, to the Federal Reserve Agent at Cleveland, and to the Assistant Federal Reserve Agent at San Francisco, inclosing copies of such replies."

Approved unanimously, together with
a letter to Mr. Sargent, Assistant Federal
Reserve Agent at the Federal Reserve Bank

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of San Francisco, reading as follows. The letters to the President of the Federal Reserve Bank of New York and the Federal Reserve Agent at Cleveland referred to in the letter to all Federal reserve agents merely transmitted copies of the letters received from the Comptroller of the Currency regarding the matter:

"This refers to your telegram dated March 6, 1936, presenting a question regarding the interpretation of the Comptroller's regulation governing the purchase of investment securities which was promulgated under the authority of section 5136 of the Revised Statutes.

"A copy of your telegram, together with a copy of a letter from the Assistant Federal Reserve Agent at Cleveland, was submitted to the Comptroller of the Currency with a request for an expression of his views thereon. There is inclosed herewith a copy of the Comptroller's reply, which was received by the Board on March 25, 1936.

"It will be observed that the Comptroller has stated that, in the case of national banks which hold securities in excess of the limitations prescribed by section 5136, a gradual liquidation in most cases would be permissible if immediate liquidation would involve loss to the bank.

"Likewise, it is the view of the Board that, in cases of the kind described in your telegram where a State member bank holds investment securities in excess of the limitations prescribed by section 5136, a gradual liquidation is permissible if immediate liquidation would involve loss to the bank."

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"This refers to Governor Seay's letter of January 30, 1936, with reference to the inclusion of section 13b surplus in the capital and surplus of Federal Reserve banks in determining the respective amounts payable by them under the assessments made by the Board of Governors pursuant to the provisions of section 10 of the Federal Reserve Act. Governor Seay's letter contends that it is not equitable or logical to include section 13b surplus in the basis for the assessment and requests that the Board reconsider the matter.

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"The matter has been reviewed in the light of Governor Seay's letter and careful thought has been given to the various points which are set forth in support of his position. It is the Board's conclusion, however, that under the law section 13b surplus should be included as a part of the capital and surplus of Federal Reserve banks upon which assessments made pursuant to section 10 of the Federal Reserve Act are based and, accordingly, that the basis of assessments which has prevailed since the first payments were made to the Federal Reserve banks under section 13b of the Federal Reserve Act is correct.

"Amounts paid by the Secretary of the Treasury to any Federal Reserve bank pursuant to the provisions of section 13b of the Federal Reserve Act become a part of the funds of such bank and there is no restriction in the law upon the use of these funds by the bank. They are available for use or investment by the bank just as are any other funds which it owns. There is no requirement that they be repaid to the United States. Accordingly, the amount of payments made by the Secretary would appear to be a part of the funds of the Federal Reserve bank which are ordinarily known as surplus, that is, the amount of net assets over and above all liabilities including capital stock.

"There would appear to be no reason why the term surplus as used in section 10 of the Federal Reserve Act with regard to the basis for the assessments by the Board upon the Federal Reserve banks should be construed in a more restricted or limited sense than the usual and commonly accepted meaning of the term would indicate. It is true that section 13b provides that the sum paid to each Federal Reserve bank by the Secretary of the Treasury shall become a part of the surplus fund of such bank 'within the meaning of this section', and the intention of Congress in using this language is not clear. If, however, this provision is taken to mean that the sum paid by the Secretary should be considered as surplus only for the purposes of section 13b, the provision would apparently have little or no meaning. In any event, the provision does not declare that the sum paid by the Secretary is not to be considered surplus within the meaning of other sections of the law and, accordingly, it is not believed that it should affect the conclusion which would be reached in the absence of such provision, namely, that such sum is a part of the surplus of the Federal Reserve bank within the meaning of other sections of the statute.

"It is suggested in Governor Seay's letter that if sec-

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"tion 13b surplus is to continue as a part of the basis of assessments it would seem that the Secretary of the Treasury should be requested to make advances on commitments as well as on actual advances by the Reserve banks. The agreement under which the Secretary of the Treasury pays to the Federal Reserve banks amounts under section 13b of the Federal Reserve Act was worked out only after considerable difficulty and protracted negotiations with the Treasury Department and it is believed that it would be inadvisable to disturb the existing arrangement at this time, especially since there seems little likelihood that a request for payments on the basis of commitments would meet with success.

"We trust that the above discussion of this matter will adequately explain the reasons for the Board's position."

Approved unanimously.

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

"In the Board's telegram Trans 2094 of September 28, 1934 each Federal Reserve agent was requested to notify each other Federal Reserve agent and the Board, by telegraph, of the name and location of every nonmember bank which files an agreement with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934. It was further requested that each Federal Reserve agent prepare and have available for distribution a list of such banks and furnish a copy thereof to the Board as of the end of each month, until such time as it was decided to prepare the list at the Board's offices for distribution to all Federal Reserve agents.

"A list of such banks as of March 31, 1936 has been prepared at the Board's offices, and twenty-five copies thereof are inclosed. It is requested that one or more master copies be kept up to date by your bank on the basis of telegraphic advices (code 'Alightable') received from other Federal Reserve banks in accordance with the Board's telegram TRANS 2094. If and when a copy of the list is given out in response to a request, it should, of course, first be brought up to date in accordance with the master copy. From time to time the list will be brought up to date and re-mimeographed at the Board's offices, and copies of the revised list will be furnished to you. Hereafter it will not be

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"necessary for you to furnish the Board as of the end of each month with a copy of the list on file at your bank, but for checking purposes the Board will advise you at the end of each month of all changes made during the month in the copies of the list maintained at the Board's offices."

Approved unanimously.

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

"The Board's Division of Security Loans mailed to you on March 25 without a covering letter several mimeographed copies of the new Regulation U and supplement thereto issued by the Board of Governors of the Federal Reserve System on that date to become effective May 1, 1936.

"Inclosed are twelve printed copies of Regulation U and the supplement thereto.

"In preparing the regulation and supplement thereto for issue, the Board's staff and the members of the Board recognized the desirability of drafting the regulation in more broad and general terms than was the tentative draft dated January 10, your comments upon which were greatly appreciated.

"It is the hope and belief of the Board of Governors that the regulation as issued is understandable and free of any detailed provisions which it may not be necessary to incorporate in the regulation."

Approved unanimously.

Letter to the George A. Fuller Company, Washington, D. C., reading as follows:

"Reference is made to Mr. Pugh's letter of March 20, 1936, submitting for the consideration of the Board the name of United States Tile & Marble Co., Inc., Washington, D. C., as a proposed subcontractor for work on the new building of the Board of Governors.

"I am authorized by the Board to advise you in accordance with Article 31 of the construction contract that the above-named firm is not objectionable to the Board for the purposes stated in your letter." (Ceramic tile work)

Approved unanimously, the sub-contractor referred to having been approved

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by the Board's architect, the Board's superintendent of construction and by Mr. Miller.

Letter to the George A. Fuller Company, Washington, D. C., reading as follows:

"Reference is made to Mr. Pugh's letter of March 30, 1936, submitting for the consideration of the Board the name of The Lamson Company, Philadelphia, Pennsylvania, as a proposed subcontractor for work on the new building of the Board of Governors.

"I am authorized by the Board to advise you in accordance with Article 31 of the construction contract that the above-named firm is not objectionable to the Board for the purposes stated in your letter." (Pneumatic tube system)

Approved unanimously, the sub-contractor referred to having been approved by the Board's architect, the Board's superintendent of construction and by Mr. Miller.

Thereupon the meeting adjourned.

Chester H. Bowie
Secretary.

Approved:

J. A. Brodwin
Chairman pro tem.