

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, April 13, 1936, at 11:30 a. m.

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

Telegram to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated April 10, 1936, from Mr. Morrill stating that Mr. Frank H. Grimes, Assistant Index Clerk in the Secretary's office, has an opportunity to make a 56-day tour of Europe during the period from June 22 to August 15, 1936, inclusive, and that for this purpose he had requested that he be granted, in addition to the regular annual leave, a leave of absence of nineteen days without pay. The memorandum recommended that the request be granted.

Approved unanimously.

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

4/13/36

-2-

"This refers to your letter of March 12, 1936, regarding the difference between the Board's Regulation Q and Regulation IV of the Federal Deposit Insurance Corporation, relating to the payment after maturity of interest on a time certificate of deposit which has been renewed within ten days after maturity.

"You state that your counsel has advised you that it is improper for a member bank, where a time certificate of deposit is renewed, to date the renewal certificate back to the maturity date of the renewed certificate where the effect of such dating back is to pay the depositor interest on his deposit for the interval between the maturity of the renewed certificate and the actual execution of the renewal certificate.

"The terms of Regulation Q do not contain a provision for the payment by a member bank of interest on a time deposit between the date of maturity of the certificate representing such deposit and the date of the renewal of such certificate even though such renewal certificate is dated back to the date of the maturity of the original certificate.

"However, after considering all of the attendant circumstances, the Board has decided that it will offer no objection to the payment by a member bank of interest on a time deposit at a rate not exceeding the applicable maximum rate prescribed in Regulation Q, for the period between the maturity date of the certificate representing such deposit and the date of renewal thereof, provided such certificate is renewed within ten days after maturity and the renewal certificate is dated back to the date of maturity of the original certificate.

"It will be appreciated if you will bring the substance of this letter to the attention of all of the member banks in your district."

Approved unanimously.

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

"This refers to the letter of March 13, 1936, from Mr. Stevens, regarding the difference between section 3(f) of Regulation Q and section 3(e) of Regulation IV of the Federal Deposit Insurance Corporation, relating to the payment of interest after maturity on deposits which are renewed within ten days after maturity.

4/13/36

-3-

"The terms of Regulation Q do not contain a provision for the payment by a member bank of interest on a time deposit between the date of maturity of the certificate representing such deposit and the date of the renewal of such certificate even though such renewal certificate is dated back to the date of the maturity of the original certificate.

"However, after considering all of the attendant circumstances, the Board has decided that it will offer no objection to the payment by a member bank of interest on a time deposit at a rate not exceeding the applicable maximum rate prescribed in Regulation Q for the period between the maturity date of the certificate representing such deposit and the date of renewal thereof, provided such certificate is renewed within ten days after maturity and the renewal certificate is dated back to the date of maturity of the original certificate.

"It will be appreciated if you will bring the substance of this letter to the attention of all of the member banks in your district."

Approved unanimously, with the understanding that a copy of the letter would be sent to all Federal Reserve Agents except at Chicago and Minneapolis with the request that they bring the substance of the letter to the attention of all member banks in their respective districts.

Letter to Mr. E. S. Coombs, Executive Vice President, Telegraphers National Bank, St. Louis, Missouri, reading as follows:

"This refers to your letter dated March 4, 1936, regarding the difference between the Board's Regulation Q and Regulation IV of the Federal Deposit Insurance Corporation, relating to the payment after maturity of interest on a time certificate of deposit which has been renewed within ten days after maturity.

"The terms of Regulation Q do not contain a provision for the payment by a member bank of interest on a time deposit between the date of maturity of the certificate representing such deposit and the date of the renewal of such certificate even though such renewal certificate is dated back to the date of the maturity of the original certificate.

4/13/36

-4-

"However, after considering all of the attendant circumstances, the Board has decided that it will offer no objection to the payment of interest on a time deposit at a rate not exceeding the applicable maximum rate prescribed in Regulation Q, for the period between the maturity date of the certificate representing such deposit and the date of renewal thereof, provided such certificate is renewed within ten days after maturity and the renewal certificate is dated back to the date of maturity of the original certificate.

"If you should have any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of St. Louis, which will be glad to answer your inquiries."

Approved unanimously.

Letter to Mr. W. T. Harding, Cashier, The Citizens National Bank, Emporia, Virginia, reading as follows:

"This refers to your letter of March 31, 1936, regarding the question whether your bank may continue to use certificates of deposit to evidence its savings deposits. You state that it has been the custom of your bank, as well as the custom of a number of other banks in Virginia, to use certificates of deposit as the form of savings accounts and without any specified date to run or mature and that, 'We are still using the certificate of deposit representing a savings account but require thirty days' notice in writing before a withdrawal can be had'.

"If the certificates of deposit in question provide on their faces that they are payable upon notice in writing, which is actually required to be given not less than thirty days before the date of repayment and only upon presentation and surrender of the certificates, the deposits represented thereby may properly be classified as time deposits upon which interest may be paid at a rate not in excess of that specified in the current supplement to the Board's Regulation Q. If, however, the bank merely reserves the right to require notice of not less than thirty days before any withdrawal, the deposit may not be classified as a 'time certificate of deposit' or other time deposit within the meaning of the Board's Regulation and interest may not be paid thereon.

"Such a deposit may not be classified as a 'savings deposit' within the meaning of the Board's Regulation Q,

4/13/36

-5-

"because it is not represented by a passbook in which withdrawals are entered from time to time, as contemplated by the definition of that term contained in section 1(e) of the Regulation.

"Under the provisions of the supplement to the Regulation, effective January 1, 1936, the maximum rate of interest which may be paid on a 'time certificate of deposit' payable upon written notice of less than ninety days is 1 percent per annum compounded quarterly, except that a member bank may pay interest on such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 1, 1935, which was in force on that date, and which may not legally be terminated or modified by the bank at its option or without liability.

"The Board's Regulation and supplement were adopted on November 26, 1935, and distributed promptly to all member banks, but were not made effective until January 1, 1936, in view of the fact that most banks pay interest on savings deposits on that date. It would seem that this afforded the member banks a reasonable opportunity to make any adjustments in their contracts with their depositors which were rendered necessary by the amendments to the Regulation.

"However, if your bank has agreed to pay interest on certificates of deposit at a rate in excess of 1 percent per annum compounded quarterly, but not in excess of $2\frac{1}{2}$ percent per annum compounded quarterly, on the theory that such deposits constitute 'savings deposits', the Board will interpose no objection to your paying interest on such deposits at the rate prescribed in such certificates, provided that, before such interest is paid and at all events before July 1, 1936, the bank retires such certificates and substitutes therefor savings passbooks complying in all respects with the provisions of section 1(e) of the Board's Regulation Q."

Approved unanimously.

Letter to Honorable Emm. Tsouderos, Governor, Bank of Greece,
Athens, Greece, reading as follows:

"In the absence of Chairman Eccles from Washington, permit me to acknowledge receipt of your letter of March 24, and to extend to you the congratulations of the Board of Governors of the Federal Reserve System upon your re-appointment as Governor of the Bank of Greece. Your

4/13/36

-6-

"friendly assurances in this connection are greatly appreciated."

Approved unanimously.

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

"Reference is made to your letter of March 24, 1936, advising that the services of Mr. C. H. M. Atkins with The Fifth-Third Union Trust Company, Cincinnati, Ohio, and The First National Bank of Norwood, Norwood, Ohio, are apparently in violation of section 8 of the Clayton Act, as amended, since he was not 'lawfully serving' these institutions on August 23, 1935, under the authority of an existing permit and since the cities of Cincinnati and Norwood are 'contiguous'; and requesting a statement of the Board's views relative to his Clayton Act status.

"You state there is no doubt that Norwood is contiguous to Cincinnati, but that, by reason of their limited loaning power, the banks located in Norwood are not in a position to compete substantially with the larger banking institutions in Cincinnati which handle the major banking business of the industries located in Norwood, although a portion of the banking business of the numerous industries located there is undoubtedly performed by the Norwood institutions. Accordingly, you express the belief that there is no substantial conflict of competitive interest between The First National Bank of Norwood and The Fifth-Third Union Trust Company of Cincinnati and feel that there may be some question whether Mr. Atkins' services with these banks are in violation of the spirit of the Clayton Act in view of the comments appearing on page 834 of the Federal Reserve Bulletin for December 1935 reading in part as follows:

'In any case in which there is doubt as to the applicability of this provision of the Act in the light of the definitions given above, it is believed that consideration may properly be given to the question whether there is any substantial conflict of competitive interest between the banks of one city, town, or village and the banks of the other'

"The comments from which the above quotation is taken relate to the meaning of the phrase 'contiguous or adjacent thereto' as used in the exception contained in paragraph (5) of section 8 of the Clayton Act, as amended, which exempts from the prohibitions of the Act relationships involving banks not

4/13/36

-7-

"located in the same city, town, or village or in cities, towns or villages which are contiguous or adjacent to each other. As indicated in the quotation, these comments are applicable only in the event that there is doubt as to whether the communities involved are either 'contiguous or adjacent', since in such cases it is felt that the existence or absence of 'any substantial conflict of competitive interest between the banks' involved may have a significant bearing on the question. Since, as stated in your letter, there is no doubt but that Norwood is contiguous to Cincinnati, it appears that the comments set forth on page 834 of the Federal Reserve Bulletin for December 1935 are not applicable in this case and Mr. Atkins' services with The First National Bank of Norwood and The Fifth-Third Union Trust Company of Cincinnati do not come within the exception contained in paragraph numbered (5) of section 8 of the Clayton Act, as amended.

"Therefore, unless Mr. Atkins' services with these institutions come within other exceptions contained in the Act or the Board's Regulation L, it appears that such services are in violation of section 8, as amended. It will be appreciated if you will advise Mr. Atkins and the banks accordingly and inform the Board when Mr. Atkins has brought his services into compliance with the provisions of the Act."

Approved unanimously.

Thereupon the meeting adjourned.

Robert M. ...
Secretary.

Approved:

J. A. Broderick
Chairman pro tem.