

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 21, 1936, at 10:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Parry, Chief of the Division of
Security Loans

Mr. McKee referred to a letter received from the Federal Reserve Agent at the Federal Reserve Bank of St. Louis under date of April 10, 1936, transmitting the request of Mr. A. Wagenfuehr, Vice President of The Boatmen's National Bank of St. Louis, for an expression from the Board as to whether units of trust shares representing listed stocks are to be construed as registered equity shares for the purposes of Regulation "U", Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. A draft of reply had been prepared in which it was stated that certificates or other evidences of beneficial interest in shares of stock registered on a national securities exchange and held in a fiduciary capacity are not stocks registered on a national securities exchange within the meaning of Regulation "U" if the certificates or other evidences of interest are themselves not registered on a national securities exchange. Both Mr. McKee and Mr. Ransom had expressed the opinion that, while the proposed reply appeared to be a correct technical interpretation of the law, such a ruling might permit evasion

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of the regulation and that the matter should be given careful consideration.

At the conclusion of a discussion of the matter, during which it was pointed out that it did not appear from the Federal reserve agent's letter that the inquiry was based on anything more than a hypothetical case, it was agreed that the Federal reserve agent should be requested to obtain additional information concerning the facts surrounding the inquiry and that the matter should be reconsidered by Mr. Parry and Counsel's office on the basis of the additional information thus obtained.

At this point Mr. Parry left the meeting.

There was then presented a letter dated April 16, 1936, signed by the directors of the Federal Reserve Bank of San Francisco, requesting reconsideration of the action taken by the Board on April 5, 1936, in declining to approve salaries at the rates of \$30,000 and \$15,000 per annum for Mr. William A. Day as President and Mr. W. M. Hale as Vice President, respectively, and in approving for them salaries at the rates of \$23,000 and \$14,000 per annum, if fixed by the directors of the bank at those rates.

After a discussion of the considerations upon which the Board's action was based, the Secretary was requested to prepare for the consideration of the Board a draft of reply stating briefly the Board's reasons for not approving the salaries fixed by the directors for Messrs. Day and Hale.

Reference was made to the excess reserves of member banks and there followed a discussion of various aspects of the situation which suggested the desirability of the Board reaching a conclusion on the question whether action should be taken by it in the near future to in-

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crease reserve requirements. It was stated that certain members of the Board had planned to be absent from Washington later in the week and during the following week and that, therefore, it would be advisable to consider the matter as promptly as possible.

Accordingly, it was agreed unanimously that a meeting of the Board should be held tomorrow afternoon at 2:30 p.m. for the purpose of considering the problem of excess reserves. It was also agreed unanimously that the Chairman should invite Mr. Landis, Chairman of the Securities and Exchange Commission, to be present at the meeting to present any views that he might have with regard to the subject of excess reserves and that Mr. Harrison, President of the Federal Reserve Bank of New York, and Messrs. Burgess and Williams, Vice Presidents of the bank, should also be invited to be present.

In connection with the above action, it was understood that arrangements would be made for the members of the subcommittee of the special committee of the American Bankers Association appointed to confer with the Board on Regulation "U" to meet with the Board at 10:00 a. m. tomorrow morning, instead of at 2:30 p. m. as was agreed upon at the meeting on April 17.

In connection with this matter, Chairman Eccles referred to the fact that at the meeting of the Federal Open Market Committee on March 19, 1936, it had been agreed that there should be another meeting of the Committee on April 30 with the understanding that this would not prevent the calling of an earlier meeting, and stated that he had discussed the matter yesterday with President Harrison, Vice Chairman of the Committee, who had concurred in Chairman Eccles' opinion that there was no necessity for a meeting on that date. Mr. Morrill stated that President Fleming of the Federal Reserve Bank of Cleveland, a member of the Federal Open Market Committee, had talked with him on the telephone and had said that

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it would meet with his approval if the meeting were deferred.

Chairman Eccles suggested that in these circumstances he be authorized to address a letter to the four Federal reserve bank members of the Federal Open Market Committee which would state that the members of the Board were in agreement that it was not necessary to hold a meeting of the Committee on April 30, and that, in the absence of objection on the part of the Federal reserve bank members of the Committee, the meeting will be postponed with the understanding that it will be called by the Chairman for some date during the month of May.

Chairman Eccles' suggestion was approved unanimously.

Mr. Morrill stated that Mr. Goldenweiser, Director of the Division of Research and Statistics, had suggested that, in order that the latest information with regard to the possible effects of a change in reserve requirements of member banks might be available to the Board, a telegram be sent to the Federal reserve banks requesting them to send to the Board immediately information regarding average reserve balances of member banks with the Federal reserve banks and average balances with other banks for the period from March 1 to March 15, inclusive.

The Secretary was authorized to send a telegram to the Federal reserve banks in accordance with Mr. Goldenweiser's suggestion.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on April 15 and 16, 1936, were approved unanimously and the actions recorded therein were ratified unanimously.

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At this point Messrs. Thurston and Wyatt left the meeting.

There was then presented a draft of letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Deputy Comptroller Gough's letter of March 9, 1936, requesting advice as to whether a loan made to an executive officer of a member bank prior to June 16, 1933, which has been extended by resolution of the board of directors of such bank even though secured by marketable collateral sufficient to liquidate the loan, can be considered to have been properly extended in view of the requirement of section 22(g) of the Federal Reserve Act that the board of directors must be satisfied that the officer has 'made reasonable effort to reduce his obligation'. Advice is also requested on the same question, with the additional facts included that a part of the loan has been charged off and the marketable collateral to the loan is sufficient to liquidate the remainder. The applicable provisions of section 22(g) are as follows:

'Provided, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank:
* * *'.

"You will observe that the law requires that the board of directors of the member bank shall be satisfied as to the matters prescribed by the law before extending or renewing a loan of the kind under discussion, and that, in addition to determining whether the officer 'has made reasonable effort to reduce his obligation', the board of directors must also be satisfied that the extension or renewal 'is in the best interest of the bank'. It seems clear, therefore, that the primary responsibility for the extension or renewal of such a loan is placed by law upon the board of directors of the member bank involved and that it is contemplated that in reaching a determination in the matter the board of directors will consider all of the facts and circumstances in the particular case. It is the view of the Board, therefore,

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"that the fact that a loan of the kind under discussion is secured by marketable collateral in an amount sufficient to liquidate the loan would not of itself show that an extension of the loan was not in conformity with the requirements of section 22(g) but that all of the facts in the particular case would have to be given consideration in determining this question. The fact that a part of the loan had been charged off and the marketable collateral would liquidate the remainder would not change such conclusion. Of course, in any case where it appears that a loan may have been extended without a proper regard for the provision of law quoted above, it would be desirable for the bank examiner, in connection with his examination of the bank, to give particular consideration to all the facts involved in the case in order to determine whether or not the directors have acted arbitrarily in extending the loan."

Approved unanimously.

Thereupon the meeting adjourned.

Whester Morice
Secretary.

Approved:

W. C. ...
Chairman.