A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 5, 1936, at 11:00 a.m.

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

Memorandum dated May 4, 1936, from Mr. Morrill stating that Mr. McKee had requested him to submit to the Board a recommendation that Mr. A. C. Walters be appointed as Secretary to Mr. McKee, effective immediately, with no change in the salary at the rate of $2,500 per annum, which he is now receiving as Secretary to Mr. Carpenter. The memorandum stated that, while it would be necessary to replace Mr. Walters, his present position would be filled, at least temporarily, by a stenographer in the Secretary's office.

Approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors of the Federal Reserve System has learned with regret from your telegram of May 2, 1936, of the death on that date of Mr. Walter V. Bulleit, one of your bank's appointees to the directorate of the Louisville branch of the Federal Reserve Bank of St. Louis."

Noted.
Letter to Mr. Moore, Deputy Chairman of the Federal Reserve Bank of San Francisco, prepared in accordance with the action taken at the meeting on May 1, 1936, and reading as follows:

"Chairman Eccles has drawn to the attention of the Board your telegram of April 29, 1936, in which you acknowledge receipt of his letter of April 24 to you with respect to the salaries of President Day and Vice President Hale.

The members of the Board appreciate very much the cooperative spirit of your telegram and they have requested me to assure you of their desire to be as helpful as possible, in the light of their responsibilities to the entire Federal Reserve System, in meeting the problems arising at the Federal Reserve Bank of San Francisco.

The Board is pleased to learn that the members of your board and the officers of the San Francisco bank are entirely in sympathy with the proposed transfer of the non-statutory duties performed in the Federal reserve agent's department to the operating side of the bank. As you know, the Board feels strongly that the reasons of economy and efficient operation on which this suggested change in the organization of the Federal reserve banks is based fully justify the change, and it is pleased to know that the necessary survey is being made by your bank preparatory to the submission of the details of the transfer to the Board for approval. If the Board can be of assistance to you in connection with this matter or in connection with the larger problem of which this is a part, i.e., the survey of the organization and personnel of the bank which is now being conducted, it will be pleased to have you call upon it for that purpose."

Approved unanimously.

Letter to the board of directors of "The Geo. D. Harter Bank", Canton, Ohio, stating that, subject to the conditions of membership numbered 1 to 6 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 Cleveland:
"7. Such bank shall make adequate provision for depreciation in its furniture and fixtures.

"8. Prior to admission to membership such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $49,541.49 as shown in the report of examination of such bank as of February 5, 1936, made by an examiner for the Federal Reserve Bank of Cleveland."

Approved unanimously, together with a letter to Mr. Burke, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Geo. D. Harter Bank', Canton, Ohio, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Ohio for his information.

"The Board also approves the application of The Geo. D. Harter Bank for permission, after admission to membership, to operate the branches at North Canton and Louisville, Ohio. Inclosed is a letter approving such application which you are requested to forward to the board of directors of the institution. A copy of the letter is also inclosed for your files.

"It is understood that under the laws of Ohio trust funds held by a bank and deposited in its own banking department are fully protected by statutory preference. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization contained in the Board's letter of March 8, 1935.

"It has been noted from the report of examination as of February 5, 1936, that the bank is paying interest on the deposit of uninvested trust funds and that a number of corporation accounts are being carried in the savings ledgers which apparently do not conform to the provisions of Regulation Q. In this connection, it is assumed that you will acquaint the bank with the provisions of Regulation Q and request that the bank's practices be brought into conformity therewith."
"It appears that the loans and investments of the bank to which the provisions of section 23A of the Federal Reserve Act will be applicable upon the bank's admission to membership now exceed twenty per centum of the bank's capital stock and surplus, the maximum permitted by that section, and, accordingly, if the bank becomes a member, it will not be permitted under the law to make further loans or investments of that character under the existing facts. In this connection, it is noted that your examiner expresses the view that if the bank becomes a member it will not be permitted to make further advances to Harcan Realty Company, an affiliate organized to hold real estate acquired by the bank through foreclosure. It is understood that when the bank sells real estate to such affiliate it takes the affiliate's note for part or all of the purchase price. Apparently the provisions of section 23A will not be applicable to such loans or extensions of credit since that section states that its provisions shall 'not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank'."

In connection with the above matter there was also presented a letter to the board of directors of "The Geo. D. Harter Bank", Canton, Ohio, reading as follows:

"In connection with the application of The Geo. D. Harter Bank, Canton, Ohio, for stock in the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment and operation of a branch at Louisville, Ohio, and a branch at North Canton, Ohio, the establishment of which was approved on October 7, 1931, by the Superintendent of Banks of the State of Ohio."

Approved unanimously.

Letter to the board of directors of the "Union Trust Company of the District of Columbia", Washington, D. C., stating that, subject to the conditions of membership numbered 1 to 6 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 Richmond:

"7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.

"8. Except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not exercise the power described in paragraph 5 of the second section of its Certificate of Incorporation to issue debenture bonds, and the power described in paragraph 8 of the same section to engage in the storage and warehousing business.

"9. As soon as practicable such bank shall reduce all loans which are in excess of the limits prescribed by the laws of the District of Columbia to amounts within such limits.

"10. Prior to admission to membership, such bank, if it has not already done so, shall effect such adjustment in any loan to a director or officer of the bank which is secured in whole or in part by shares of its own stock as to render the retention of such stock unnecessary and shall release such stock as collateral, and, as soon as practicable, such bank shall dispose of any shares of its own stock held as collateral to other loans.

"11. Prior to admission to membership such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $15,412.84 as shown in the report of examination of such bank made by a national bank examiner as of January 2, 1936."

Approved unanimously, together with a letter to Mr. Delano, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Union Trust Company of the District of Columbia', Washington, D. C., for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. A copy is also inclosed for your files."
"Consideration has been given to the applicability of condition of membership numbered 3 to the operations of Thomas J. Fisher and Company, Inc., an affiliate of the bank. It is understood that the making of mortgage loans and the sale thereof are merely incidental to the principal business of Thomas J. Fisher and Company, Inc., of selling real estate, handling rentals and writing insurance. The Board is of the opinion that the bank need not be considered as engaged indirectly in the business of selling real estate loans or participations therein by reason of its affiliation with Thomas J. Fisher and Company, Inc., if the sale of mortgages continues to be only incidental to its real estate, rental and insurance business. Of course, the Board reserves the right at any time to determine, on the basis of all the facts then involved, whether or not such facts indicate that the bank is engaged as a business in selling real estate loans either directly or indirectly within the meaning of the provisions of condition of membership numbered 3. Please advise the bank accordingly.

"It has been noted that the by-laws of the bank provide that it shall have not less than 9 nor more than 30 directors. As you know, under the provisions of section 51 of the Banking Act of 1933, as amended, the directorate of a State member bank shall consist of not less than 5 nor more than 25 members. While it appears that, at the present time, the Union Trust Company of the District of Columbia has 16 directors, it is suggested that you call its attention to the provisions of section 51 and to the desirability of taking appropriate action to amend its by-laws to provide for a maximum of not more than 25 directors, in order to avoid the possibility of any violation of law in the future."

Telegram to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Relet May 1 Board extends to July 6, 1936, time within which 'Citizens Bank & Trust Company', Carthage, Tennessee, may effect withdrawal from the System. Please advise the bank accordingly."

Approved unanimously.

Telegram to Mr. Geery, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:
"Re NAVIFORM telegram April 29 'Citizens State Bank of Westbrook', Minnesota. Bank's request for withdrawal and its application for waiver of usual six months' notice of intention to withdraw approved by Board on February 12, 1936, and Peyton so advised in telegram of that date. Board's Regulation H provides that when waiver of six months' notice is granted withdrawal from membership shall be accomplished within two months after such waiver has been granted unless the bank requests and Board grants extension of time or the bank will be presumed to have abandoned its intention of withdrawal from membership and will not be permitted to withdraw without again giving six months' notice of withdrawal or obtaining the waiver of such notice. Although bank did not accomplish withdrawal within time allotted and does not appear to have requested extension, Board in order that no question may be raised in future hereby approves withdrawal of Citizens State Bank of Westbrook from System as of April 29, 1936."

Approved unanimously.

Letter to Mr. Thomas B. McAdams, President, "Union Trust Company of Maryland", Baltimore, Maryland, reading as follows:

"Reference is made to your letter of March 21, 1936, and to previous correspondence regarding cancelation or modification of condition of membership numbered 21 which was accepted by the Union Trust Company of Maryland at the time of its admission to membership and which reads as follows:

'Such bank, in all of its published statements of condition, shall show separately its extensions of credit to, and investment in, its subsidiary, The Royal Realty Corporation, as an investment in, and an extension of credit to, an affiliated company holding other real estate.'

"The condition was prescribed in view of the fact that at the time of the approval of the application for membership the Board had no control over the publication of condition reports other than through conditions of membership affecting individual banks. Since that time, however, the Federal Reserve Act has been amended so as to require publication by State member banks of reports of condition in such form as the Board of Governors may require and in accordance with such regulations as the Board may prescribe. In the circum-
stances, therefore, the Board cancels condition of membership numbered 21 to which the Union Trust Company of Maryland is now subject.

"In view of the fact that the Board's form of call report may be revised so as to make applicable to all State member banks the policy expressed in condition of membership numbered 21 referred to, the question of whether the Union Trust Company of Maryland should now change its method of reporting its investment in and advances to the Royal Realty Corporation is a matter for determination by the bank."

Approved unanimously.

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of April 23, 1936, presenting the question whether, under the terms of the Board's letter of April 13, 1936 (X-9545-a) stating that no objection would be offered to the payment by a member bank of interest after maturity on a time certificate of deposit renewed within ten days after maturity, the bank is required to date the renewal certificate back to the date of maturity of the original certificate.

"As you know, section 19 of the Federal Reserve Act prohibits the payment of interest on deposits payable on demand, and it appears that when a time certificate of deposit matures on a certain date and is subsequently renewed as of a later date there is an intervening period during which the deposit is payable on demand. It is believed that the position taken in the Board's letter of April 13, 1936, which regards the renewal certificate as taking effect as of the maturity date of the original certificate, represents a liberal interpretation of the statute and in the circumstances it does not appear that an extension of the provisions of the letter by the elimination of the requirement that the bank date the renewal certificate back to the date of maturity of the original certificate would be justified."

Approved unanimously.

Letter to Messrs. France, McLanahan & Rouzer, Baltimore, Maryland, reading as follows:

"Reference is made to your letter of April 21, 1936, con-
taining questions as to agreements by nonmember banks on the Board's Form F. R. T-1 for the purpose of qualifying as banks from which it is lawful for members of national securities exchanges and certain brokers and dealers to borrow in accordance with section 11(a) of the Board's Regulation T. Your questions will be referred to in the order in which they were asked.

"The Board has not yet recommended to Congress that the Securities Exchange Act of 1934 be amended so as expressly to authorize voluntary cancellation of such an agreement by a bank which has closed out all loans made under section 8(a) of the Securities Exchange Act while the agreement was in force.

"Rulings No. 3 and No. 10 with respect to Regulation T have not been amended or overruled.

"Ruling No. 3 with respect to Regulation T is intended to be applicable to the case in which a bank has signed and filed Form F. R. T-1 but has not made any loans to members, brokers or dealers referred to in subsection (a) of section 8 of the Securities Exchange Act."

Approved unanimously.

Letter to Mr. Thomas, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of March 23, 1936, and the previous correspondence relating to the possible applicability of section 52 of the Banking Act of 1933 to Mr. W. E. Brown, a director of The First National Bank in Wichita, Wichita, Kansas, in view of his present relations with The Brown-Crummer Investment Company.

"It appears from the information which has been submitted that Mr. Brown was president and director of the investment company from the time of its organization until 1929, at which time he resigned both as president and director; that he is not now an officer or director of the company; that he has never received any compensation from the company other than dividends; that he owns 908½ out of a total of 5,000 shares of common stock of the company and 1816½ shares out of 10,000 shares of preferred stock; and that he owns 1450 out of 10,000 shares of the national bank. It also appears that the company has a board of directors of seven members; that its management is vested in an executive committee consisting of five directors; that he does not attend
"meetings of the executive committee; that he does not attempt to control the discretion of the management of the company; that he has an office with the company at which he transacts most of his private business; that at times officers and employees of the company discuss with him problems relating to the business of the company, but that, although he gives them advice and counsel, he has always 'endeavored to impress upon the officers of the company that they should use and develop their own ideas as to the conduct of the business, instead of leaning upon others."

"Section 32 is applicable to a 'director, officer, or employee' of a corporation dealing in securities, and, on the basis of the above information, the Board sees no reason to differ with the conclusion stated by Mr. McAdams in his letter of January 28, 1936, that that section is not applicable to Mr. Brown because of his relations with The Brown-Crummer Investment Company."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Chairman.

Approved:

Secretary.