

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 13, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
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:

Telegram to Mr. Young, President of the Federal Reserve Bank of Boston, 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 May 13, 1936, from Mr. Morrill recommending that Mr. Robert N. Linke, an Inspector for the Board's new building who was injured on April 29, but continued to work until 11:00 a. m. on May 2, and who will not report for duty before May 14, 1936, be granted leave of absence with pay for the time that he is necessarily absent on account of the accident.

Approved unanimously.

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

"Referring your May 9 letter Board approves temporary

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"appointment of D. W. Woolley, at present examiner in charge of your Examination Department, as Acting Assistant Federal Reserve Agent at your bank. Before entering upon his duties Mr. Woolley should execute usual form of oath of office and surety bond in the amount of \$50,000, which, before being forwarded to Board for approval, should be examined by your counsel to determine whether its execution complies fully with rules printed on reverse side of form of bond 182."

Approved unanimously.

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

"Your letter May eighth. Board approves designation of the four additional employees of Los Angeles Branch listed in your letter as assistant examiners to lend clerical assistance to your regular examiners. It is understood that none of these employees will be transferred permanently to examining work without Board's approval."

Approved unanimously.

Letter to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"This will acknowledge receipt of your letter of May 6, 1936, with respect to the guard force at the Havana Agency of your bank.

"It is noted that in view of the more settled conditions in Cuba the manager of the Havana Agency is of the opinion that the Agency can with safety refrain from employing an additional guard at this time to replace one of the permanent guards who recently died, that you are of the opinion that the proposed arrangement will afford sufficient protection, that the maintenance of the guard protection in accordance with the recommendation of the manager of the Agency would meet all of the requirements of the insurance policies protecting the Agency's operations, that you are advising Mr. Frazer that you will follow his recommendations in the premises, but that since the Agency is now operated for account of all of the Federal reserve banks, you have thought that the matter should be brought to the attention of the Board for its information.

"Assuming that the manager of the Havana Agency has

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"made proper provision for relieving guards who are temporarily absent during luncheon and on account of illness, etc., the Board will interpose no objection to the proposed arrangement."

Approved unanimously.

Letter to the board of directors of the "County Trust Company of Maryland", Cambridge, Maryland, 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 houses and furniture and fixtures.
- "8. As soon as practicable, such bank shall dispose of any loans which may be secured in whole or in part by its own stock, or obtain the substitution of other adequate security for each such loan.
- "9. Such bank shall not purchase any of the assets of the County Corporation of Maryland unless the purchase of such assets shall have received the prior approval of the executive committee or the board of directors of such bank, and such bank shall furnish the Federal Reserve Bank of Richmond at the time of purchase with an itemized list of any assets so purchased.
- "10. Except to the extent usually necessary in the transaction of a commercial banking or trust business, such bank shall not, directly or indirectly, through any device whatever, invest in any mercantile, manufacturing, commercial, or other business, or engage in the business of renting or dealing in real or personal property, even though such bank may be authorized to exercise such powers under the provisions of its charter or the laws of the State of Maryland.
- "11. Within six months from date of admission to membership, such bank shall cause its affiliate, the County

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"Corporation of Maryland, to dispose of any shares of stock of the bank held by such affiliate.

- "12. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$59,987.84 in loans and discounts, and \$176.12 in miscellaneous assets, all as shown in the report of examination of such bank as of February 3, 1936, made by an examiner for the Federal Reserve Bank of Richmond, and likewise, prior to admission to membership, such bank shall eliminate or reduce to the nominal amount of \$1.00 the carrying value of its investment in the stock of its affiliate, the County Corporation of Maryland."

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 'County Trust Company of Maryland', Cambridge, Maryland, 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 Bank Commissioner of the State of Maryland for his information.

"The report of examination as of February 3, 1936, indicates that the Board of Directors or the Executive Committee should exercise closer supervision over credits, and it is requested that you point out to the management of the bank the necessity of so doing in order that the directors may properly discharge their responsibilities.

"It will be noted that instead of requiring as a condition of membership the elimination of net depreciation amounting to \$83,901.31 in the securities account as shown in the report of examination as of February 3, 1936, the elimination of the \$250,000 carrying value of the County Corporation of Maryland is required. This is in accordance with the understanding with Mr. Fry, Assistant Federal Reserve Agent, and it is understood that President Miles of the applicant bank has stated that such a condition will be acceptable. In view of the increased require-

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"ments for the elimination of assets, the condition recommended by the Reserve Bank that the reserve for contingencies be increased to cover the amount of loans classified in the report of examination as doubtful has not been prescribed.

"It is understood that the bank is considering the retirement within a short time of the \$500,000 capital debentures sold to the Reconstruction Finance Corporation. Under the provisions of the Board's letter, X-9048, you are authorized to approve such reduction if, in your opinion, such reduction is warranted and the application for membership has been approved with the understanding that the proposed retirement of \$500,000 capital debentures may be accomplished within a short time.

"It has been noted that the charter and by-laws of the bank provide that it shall have not less than 11 nor more than 30 directors. As you know, under the provisions of section 31 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 County Trust Company of Maryland has 20 directors, it is suggested that you call its attention to the provisions of section 31 in order to avoid the possibility of any violation thereof in the future.

"The Board understands that the bank maintains an office in the City of Baltimore to facilitate the administration of its general executive business, that such office does not accept deposits or issue or pay checks, and that, when negotiations for loans are entered into at such office, the loans are closed through the head office at Cambridge or at one of the bank's branches. On this basis, therefore, the Board is of the opinion that the Baltimore Office does not constitute a branch within the meaning of section 9 of the Federal Reserve Act. However, if there should be any substantial change in the functions exercised at the Baltimore office, the question whether such an office is a branch would be one for determination on the basis of the facts then existing, and the Board will expect that you will advise it of any information which in the future may come to your attention indicating that there has been such a change as to show that that office is a branch within the meaning of the Federal law."

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

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"Reference is made to your letter of May 8, 1936, transmitting with a favorable recommendation the request of the 'West Branch Bank and Trust Company', Williamsport, Pennsylvania, for permission, in accordance with the provisions of section 24A of the Federal Reserve Act, as amended, to increase the bank's investment in bank premises to an amount in excess of the bank's capital stock. According to the information submitted, the bank's total investment in banking premises amounts to \$200,000, which would be increased to approximately \$232,000 through the proposed construction of a new vault. It has been noted that as of January 25, 1936, the bank had capital stock of \$225,000, surplus of \$300,000 and undivided profits and reserves amounting to \$138,000.

"In view of all the circumstances, including your recommendation, the Board, in accordance with the provisions of condition of membership numbered 8 and section 24A of the Federal Reserve Act, approves the request of the West Branch Bank and Trust Company for permission to increase its investment in bank premises in the amount stated. Please advise the bank accordingly."

Approved unanimously.

Letter to Mr. M. A. Arnold, President, Seattle-First National Bank, Seattle, Washington, reading as follows:

"Reference is made to your letter of April 25, 1936, addressed to Mr. Wyatt, General Counsel of the Board, containing inquiries with respect to the interpretation of Regulation U. The questions asked in your letter will be discussed in the order you have asked them:

"1. The 'entire indebtedness' of any borrower referred to in the second paragraph of section 1 is limited by the phrase 'for the purpose of purchasing or carrying stocks registered on a national securities exchange' and is not intended to require that indebtedness for any other purpose be considered as within the 'single loan' referred to.

"2. In order to determine the amount of the 'entire indebtedness' of the borrower within the meaning of the second paragraph of section 1, after a loan secured by stocks has been made on or after May 1st for the purpose specified in the first paragraph there must be added to such loan the amount of all other loans to the borrower for the same purpose,

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"whether unsecured or secured by stock or other collateral, except loans excepted by section 2.

"3. Even if the maximum loan value of collateral for any loan or loans previously made by a bank for the purpose of purchasing or carrying registered stock becomes, through a decline in market price or otherwise, less than the combined amount of such loans, as in the cases referred to by you, a new loan for such purpose may be made if there is provided additional collateral having maximum loan value equal to the amount of the new loan. However, after making the new loan no withdrawal or substitution of collateral securing the loans or any of them is permitted that would increase the difference between the aggregate of all such loans (except those excepted by section 2) and the aggregate loan value of the collateral securing them.

"4. A loan by a bank to a finance corporation which is not secured directly or indirectly by any stock is not subject to the regulation, whether or not the finance corporation's business includes making loans to others on stocks.

"5. Any loan to a finance corporation, or to any other person, no matter how it is secured, comes within the provisions of section 2(e) if the purpose of the loan is to purchase a stock from or through a person who is not a member of a national securities exchange and is not a broker or dealer who transacts a business in securities through the medium of any such member, or is to carry a stock so purchased.

"We are pleased to answer your inquiries and to give you assistance in interpreting Regulation U. However, for reasons of expediency the Board has requested that inquiries relating to it be addressed to the Federal Reserve bank of the District in which the inquiry arises. Accordingly, it is suggested that any further inquiries be first addressed to the Federal Reserve Bank of San Francisco which can in most cases reply promptly."

Approved unanimously.

Letter to Mr. W. H. Berry, Assistant Vice President, Seattle-
First National Bank, Seattle, Washington, reading as follows:

"This refers to your letter of April 8, 1936, addressed to Mr. Walter Wyatt, General Counsel of the Board of Governors of the Federal Reserve System, in regard to a possible inconsistency that you believe may exist between the second

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"paragraph of section 1 of Regulation U and the last clause of the third paragraph of that section. The discussion below will show, it is believed, that the provisions in question are in fact consistent.

"The last clause of section 1 is to be regarded as making it clear that the first two paragraphs of that section do not prevent a bank, which has made a loan subject to the Regulation, from making another such loan regardless of the status of the collateral securing the first loan, if the borrower provides additional collateral having a maximum loan value at least equal to the amount of the additional loan. Even if the first loan is unsecured, the second loan may be made if this amount of collateral is provided. Since a competing bank with no previous loans to the borrower would be permitted to make a loan on the basis of this amount of collateral, it seemed desirable to provide clearly that the first bank could do the same regardless of the status of prior loans.

"The second paragraph of section 1, considered with the first paragraph of that section, permits a bank, if the maximum loan value of the collateral securing all the loans subject to Regulation U exceeds the total amount of such loans, to make an additional regulated loan equal to the amount of the excess. This is permissible regardless of the cause of the excess, whether an increase in the market value of the collateral, a decrease in the amount of the loan, or some other cause.

"The second paragraph of section 1 also means that, after loans subject to the Regulation have been made, the bank must treat the total amount of such loans and the maximum loan value of all the collateral securing them, respectively, as 'the amount of the loan' and 'the maximum loan value' referred to in the first sentence of the third paragraph reading as follows:

'After any such loan has been made, a bank shall not at any time permit withdrawals or substitutions of collateral that would cause the maximum loan value of the collateral at such time to be less than the amount of the loan.'

"If you should have any further questions regarding this matter or any similar matter, it is believed that you may find it more convenient to communicate with the Federal Reserve Bank of San Francisco, which will be glad to answer your inquiries."

Approved unanimously, together with a similar letter to Mr. Coleman, Vice President

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and Cashier of the Federal Reserve Bank
of Dallas.

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

"This refers to your letter of April 29, 1936, which sets forth the acts performed by the Louisville Branch of the Federal Reserve Bank of St. Louis in connection with the redemption of bonds of the Louisville Joint Stock Land Bank and the Union Joint Stock Land Bank of Louisville by the Citizens Union National Bank, Louisville, Kentucky.

"It appears from your letter that the Louisville Branch of your bank receives funds which are held subject to the order of the Governor of the Farm Credit Administration to pay for the total amount of the called issues of bonds of the joint stock land banks; that the Branch makes entry on its general ledger crediting 'Fiscal Agency Account of the Governor of the Farm Credit Administration' and notifies the treasurers of the joint stock land banks and the Governor of the Farm Credit Administration of the receipt of such funds; that the Branch receives bonds from the Citizens Union National Bank giving its receipt therefor and thereafter cancels such bonds; that the Branch credits Citizens Union National Bank with the face amount of the bonds deposited and debits the account 'Fiscal Agency Account of the Governor of the Farm Credit Administration'; that the Branch notifies the Registrar at the Louisville Federal Land Bank of the receipt of the bonds and notifies the Farm Credit Administration and the treasurers of the two joint stock land banks, giving them lists of the securities redeemed; and that the Branch delivers the canceled securities to the Registrar at the Louisville Federal Land Bank and takes his receipt.

"As stated in the Board's letter of April 17, 1936, to President Martin, in view of the provisions of the first paragraph of section 15 of the Federal Reserve Act, the Board has been customarily guided by the views of the Secretary of the Treasury as to what constitutes a fiscal agency function and has taken the position that, in the absence of a specific authorization such as that appearing in the third paragraph of section 15 of the Federal Reserve Act relating to Federal Intermediate Credit Banks, Federal Reserve banks should perform fiscal agency functions only after receiving a request to do so from the Secretary of the Treasury.

"Although it appears that the Farm Credit Administration

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"has requested the Louisville Branch of your bank to perform the acts described in your letter in connection with the redemption of joint stock land bank bonds, the Board is of the opinion that these acts constitute functions which should be performed only after receiving a request from the Secretary of the Treasury. Accordingly, if the Farm Credit Administration desires your bank to continue to perform these functions and your bank wishes to continue to do so, it is suggested that you advise the Farm Credit Administration of the opinion of the Board expressed above, with the suggestion that it take the matter up with the Secretary of the Treasury with a view to having the Secretary request your bank to perform the functions in question."

Approved unanimously, with the understanding that a copy of the letter would be sent to the presidents of all Federal reserve banks.

Letter to The Secretary of the Treasury of the United States, reading as follows:

"In reviewing the report of examination of the Dallas Bank and Trust Company, Dallas, Texas, made as of February 8, 1936, it appears that possible violations of certain Executive Orders of the President and the order of the Secretary of the Treasury relating to the delivery of gold coin and gold certificates, dated January 15, 1934, may have been committed. In this connection, the following is quoted from the report of examination referred to above:

'GOLD COIN AND CERTIFICATES IN BANK'S CASH

A verification of the bank's cash when the examination was commenced disclosed that United States gold coin totaling \$34 00 was being carried in counter cash by one of the paying and receiving tellers and one of the savings tellers had United States gold certificates totaling \$450 00 in his cash. Officers of the bank were apprised of the fact and a proper disposition of the gold coin and gold certificates was promised. Such disposition had not been made when the examination was closed at 6:30 P M on February 17, 1936.'

"With further reference to this matter, the Federal Re-

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"serve Agent at the Federal Reserve Bank of Dallas in a letter dated April 30, 1936, advised the Board as follows:

'(1) Gold Coin and Certificates found in Teller's Cash. The gold coin amounting to \$34.00 found in the bank's cash was deposited with the Federal Reserve Bank of Dallas as follows: \$15.00 deposited on February 14, 1936, and \$19.00 deposited on April 1, 1936. The gold certificates amounting to \$450.00 were surrendered by the bank to W. A. Philpott, Jr., of Dallas subsequent to the examination, he being the person who had deposited the certificates with the bank. The bank's officers explained that they did not know that this gold was in the bank's cash until so informed by the examiners, as the tellers who held same had not apprised the officers of their possession of the money. It was also explained that the surrender of the \$450.00 gold certificates to Mr. Philpott was thought to be justified on the grounds that Mr. Philpott is a licensed collector and had temporarily left the certificates with the bank's tellers under an agreement to return them to him upon request, the certificates being a part of his large collection of rare money.'

"This matter is being reported to you for such action as you may consider advisable."

Approved unanimously.

Letter to Mr. Wm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury, reading as follows:

"This refers to your letter of May 7 with respect to the possible discontinuance of the practice of insuring registered mail shipments of coin, currency, bullion, securities, etc. made by or for the account of the Treasury and other Governmental agencies. In accordance with the last paragraph of your letter, Mr. Smead, Chief of the Division of Bank Operations, attended the conference held in the Treasury building on Monday afternoon and gave the representatives of the respective agencies present information with respect to registered mail shipments made by the Federal Reserve banks for the account of the Treasury and other Governmental agencies. It is understood that Mr. Smead pointed out that should the practice of insuring such shipments be discontinued any shipments made by the Federal Reserve banks

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"as fiscal agents for the Treasury and other Governmental agencies would, of course, be at the risk of the Treasury or agencies for which the shipments were made.

"Practically all the insurance on shipments made by the Federal Reserve banks for the account of the Treasury or other Governmental agencies is paid for by the Treasury and such agencies and consequently information regarding such costs will, it is assumed, be furnished by the agencies for which the shipments are made."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. C. Steeles
Chairman.