

3/10/36 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 10, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
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. Paddock, First Vice 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.

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

"Reference is made to Mr. Attebery's letter of June 3, requesting the approval of the Board of Governors of the Federal Reserve System of the temporary assignment of Mr. Saunders Reinhard, a clerk in the Fiscal Agency Department at \$900.00 per annum, to a position in the Transit Department for which the maximum salary is \$780.00.

"The Board approves the temporary assignment of Mr. Reinhard to the above-mentioned position, without reduction in salary, for an additional period of six months ending November 5, 1936."

Approved unanimously.

Letter dated June 9, 1936, to Mr. Gidney, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

6/10/36

-2-

"This refers to Mr. Case's letter of January 13, 1936, and later correspondence relating to the request of the Newark Clearing House Association for a ruling by the Board upon the question whether deposits of New Jersey building and loan associations may be classified by member banks as savings deposits under the definition contained in section 1(e) of Regulation Q.

"In your letter of May 29, 1936, you state that after giving careful consideration to this question and after examining the authorities referred to in the memorandum dated January 9, 1936, submitted by Mr. J. H. Harrison, counsel for the Newark Clearing House Association, you and your counsel are in agreement with the Board's view respecting the classification of deposits of building and loan associations as stated in the Board's letter to Mr. F. G. Awalt, Deputy Comptroller of the Currency, dated January 10, 1936 (X-9424). You state that in the circumstances, you do not wish to recommend to the Board that it change its ruling, nor do you think that considerations of expediency or policy are sufficiently compelling to warrant your recommending that the Board amend its Regulation Q so as to permit the classification of deposits of building and loan associations as savings deposits.

"After considering the memorandum submitted by the counsel for the Newark Clearing House Association and the memorandum inclosed in your letter of May 29, 1936, the Board has reached the conclusion that it should adhere to the position expressed in its letter of January 10, 1936 (X-9424), to the effect that deposits of building and loan associations may not be classified by member banks as savings deposits, because such organizations are not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. Since the above fact prevents the classification of deposits of building and loan associations as savings deposits, the Board has not undertaken to determine whether or not such organizations are operated for profit.

"It will be appreciated if you will advise Mr. Harrison of the Board's position regarding this matter. In communicating with Mr. Harrison, it is suggested that you inform him that the Board's ruling was made on January 10, 1936, and that, after reconsidering the matter in the light of his memorandum dated January 9, 1936, the Board has reached the conclusion that it should adhere to its ruling that deposits of building and loan associations may not be classified by member banks as savings deposits, because such organizations are not operated primarily for the purposes stated in section 1(e) of Regulation Q. Please advise Mr. Harrison that

6/10/36

-3-

"in view of the above ruling the Board has not undertaken to determine whether or not New Jersey building and loan associations are operated for profit.

"It is also believed that it would be desirable to point out to Mr. Harrison that the Board has heretofore taken the position that deposits of other mutual organizations such as mutual fire and life insurance companies, Federal credit unions, citrus growers associations, and the Dairymen's League Cooperative Association, Inc., may not be classified by member banks as savings deposits because they are not operated primarily for the purposes stated in section 1(e) of Regulation Q and that the same ruling has been made with reference to deposits of the United States Chamber of Commerce, the National Lime Association, the American Retail Federation, Inc., and labor unions.

"It is also suggested that you advise Mr. Harrison that nothing in Regulation Q prevents building and loan associations from placing their funds in interest-bearing time deposits in member banks."

Approved unanimously.

Letter dated June 9, 1936, to Mr. Oscar Ware, Cashier, Farmers & Mechanics National Bank, Woodbury, New Jersey, reading as follows:

"This refers to your letter dated January 13, 1936, presenting the question whether deposits of building and loan associations may be classified by member banks as savings deposits under the definition contained in section 1(e) of Regulation Q. An answer to your letter has been deferred pending consideration of a similar question submitted by a clearing house association in New Jersey.

"On January 10, 1936, the Board issued a ruling to the effect that deposits of building and loan associations may not be classified by member banks as savings deposits because, in the opinion of the Board, such organizations are not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes within the meaning of section 1(e) of Regulation Q. In making such ruling the Board did not undertake to determine whether or not building and loan associations are operated for profit. Since the receipt of your letter the Board has very carefully reconsidered the ruling made on January 10, 1936, but has reached the conclusion that it should adhere to its original position.

"The decision with regard to deposits of building and

6/10/36

-4-

"loan associations is in accordance with the rulings made by the Board with respect to other similar organizations. In this connection, you are advised that the Board has heretofore ruled that deposits of mutual organizations such as mutual fire and life insurance companies, Federal credit unions, citrus growers associations, and the Dairymen's League Cooperative Association, Inc., may not be classified by member banks as savings deposits because such organizations are not operated primarily for the purposes stated in section 1(e) of Regulation Q. The same ruling has been made with reference to deposits of the United States Chamber of Commerce, the National Lime Association, the American Retail Federation, Inc., and labor unions. These rulings were also based upon the view that such organizations are not operated primarily for the purposes stated in section 1(e) of Regulation Q.

"Although deposits of building and loan associations may not be classified by member banks as savings deposits, there is nothing in the regulation which would prevent building and loan associations from placing their funds in interest-bearing time deposits in member banks.

"You also refer to section 3(c) of Regulation Q which provides that a member bank may not pay a higher rate of interest on time or savings deposits than the applicable maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which the member bank is located. This provision of the regulation merely states the effect of section 24 of the Federal Reserve Act which provides that national banks may not pay any higher rate of interest on time and savings deposits than is authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such national bank is located.

"There is, however, nothing in this section which prevents the Board from establishing maximum rates of interest lower than the rates authorized by law to be paid by State banks and trust companies. The maximum rates of interest set forth in the current supplement to Regulation Q were adopted only after the most thorough consideration of all of the factors involved and it is believed that no change should be made in these rates at the present time.

"You state that under the laws of the State of New Jersey, banks and trust companies are permitted to pay 2 per cent interest on time and savings deposits subject to 14 days' notice of withdrawal, and you indicate that it may be your understanding that national banks could pay 1 per cent interest on such deposits. Under the provisions of Regulation Q, de-

6/10/36

-5-

"posits with respect to which the only notice provision is a requirement for 14 days' notice of withdrawal may not be classified by member banks as time deposits or savings deposits and no interest may be paid on such deposits by member banks. Furthermore, under the provisions of Regulation IV of the Federal Deposit Insurance Corporation, insured nonmember banks may not pay any interest on such deposits.

"It is hoped that the above information will answer the questions which you have in mind. However, if you should have any further questions regarding the matters discussed above or any similar matters, it is believed that you may find it more convenient to communicate with the Federal Reserve Bank of Philadelphia which will be glad to answer your inquiries."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

W. S. ...
Chairman.