A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 17, 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:

Telegrams to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, stating that the Board approved the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman Eccles had received a letter from Mr. Owen D. Young, Chairman of the General Electric Company, New York, New York, stating that he would be willing to accept appointment as a Class C Director of the Federal Reserve Bank of New York and as Deputy Chairman of the bank, and the appointment of Mr. Young had been taken up with Messrs. Broderick, Szymczak and Ransom, who were absent from Washington, and

they had advised that they were in favor of his appointment as a Class C Director of the Federal Reserve Bank of New York for the unexpired portion of the term ending December 31, 1937, and as Deputy Chairman of the bank for the remainder of the current year.

Accordingly, Mr. Young was appointed a Class C Director of the Federal Reserve Bank of New York for the unexpired portion of the term ending December 31, 1937, and as Deputy Chairman of the board of directors of the bank for the remainder of the current year, and the Secretary was requested to advise Mr. Young and the Federal Reserve Bank of New York of the Board's action.

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

"This refers to your letter of May 15, 1936, inclosing a copy of the report of examination of 'The Farmers and Merchants State Bank', Turkey, Texas, as of April 15, 1936, together with an analysis thereof.

"You refer to the fact that for more than six months this bank has apparently held ten shares of its capital stock as additional collateral to a loan. You request the views of the Board of Governors as to whether or not this stock is being held in violation of the provisions of section 9 of the Federal Reserve Act and section 5201 of the Revised Statutes which prohibit a member bank from making any loan or discount on the security of the shares of its own capital stock.

"You are advised that the holding of this stock by the member bank is not a violation of the provisions of law above referred to, as the loan apparently was not made on the security of such stock and the law does not prohibit the holding by a member bank of its own stock as collateral where such stock was taken as collateral to prevent loss on a debt previously contracted in good faith. A bank's own stock, however, even when so held, is undesirable collateral to the bank's loans

"and such adjustments should be made at the first favorable opportunity as are required to eliminate the necessity for holding the stock as collateral.

"The above views may serve also as a guide in disposing of the situation referred to in item No. 9 of the analysis of the report of examination of the 'Farmers State Bank', Clifton, Texas, transmitted to the Board with your letter of May 20, 1936, to the effect that this bank has held twenty-one shares of its own stock as collateral for over six months to prevent loss on a debt previously contracted."

Approved unanimously.

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

"This refers to your letter of April 6 to Mr. Smead, with which was inclosed a copy of a letter addressed to you on April 4 by Mr. Lee C. Bradley, Jr., attorney and director of The Birmingham Trust and Savings Company, Birmingham, Alabama, in connection with the manner of showing the bank's capital accounts in reports of condition rendered pursuant to Section 9 of the Federal Reserve Act.

"It appears that on the last call date, March 4, 1936, the bank had outstanding, in addition to its common capital stock, 30,000 shares of Class 'A' preferred stock and 10,000 shares of Class 'B' preferred stock which, under certain provisions set forth in its charter as amended at the time such stock was issued, were subject to retirement at par value plus accrued dividends; that the bank included the amount of accrued dividends on the preferred stock, in determining the retirable value thereof for the purpose of items 31(b) and 31(c) of the condition report, in view of the fact that dividends on preferred stock are 'deemed to accrue from day to day'; and that the caption 'Surplus' was changed to read 'Surplus over par value of capital stock' under the permission granted in the Board's letter X-9379 of November 29, 1935. It appears further that since March 4, 1936 the bank has sold an additional amount of preferred stock, and that the Class 'A' stock now outstanding has a par value of $20.00 per share and is retirable at $50.00 per share plus accrued dividends.

"It is not intended that the retirable value of preferred stock, as called for by items 31(b) and 31(c) of condition reports on Form 105, shall include accrued dividends on such stock, but rather that the amount shall be exclusive of such

"accrued dividends, and the Board does not at present require that condition reports of State bank members shall show the amount of accrued dividends on preferred stock. Assuming that the bank again desires to amend the caption 'Surplus' to read 'Surplus over par value of capital stock' under the permission granted in the Board's Letter X-9379 of November 29, 1935, its capital stock should be reported as follows in the next condition report, if no further capital changes occur by that time:

First preferred stock 60,000 shares, par $20 per share, retirable at $50 per share Second preferred stock 14,000 shares par $50 per share, retirable at $50 per share Common stock 10,000 shares par $50 per share	$2,400,000

"The only requirement prescribed by the Board for reflecting the difference between par and retirable value of preferred stock, in condition reports of State bank members, is that indicated by the captions of items 31(b) and 31(c) of Form 105. The practice of the Comptroller of the Currency with respect to national banks is the same as the Board's practice with respect to State bank members, except that the amount of surplus as shown in condition reports of national banks in all cases is required to be based on the par value of capital stock, rather than on the retirable value where this exceeds par value, and the Comptroller has made no provision for changing the caption 'Surplus' to read 'Surplus over par value of capital stock' when the retirable value of capital stock exceeds the par value thereof.

"Mr. Bradley's assumption is correct that, for the purpose of condition reports on Form 105, Class 'A' and Class 'B' preferred stock should be reported as First and Second preferred stock, respectively. The captions First preferred stock and Second preferred stock were selected as likely to be more generally applicable and more readily understood than Class 'A' and Class 'B' preferred stock.

"For your information, in connection with the inquiry answered in the third paragraph of this letter, it is understood that the Federal Deposit Insurance Corporation has adopted a revised call report form which provides for showing in a memorandum item below Total liabilities the amount of 'Undeclared dividends on preferred stock and unpaid interest on capital notes and debentures, accrued prior to end of last dividend or interest period'. It is further understood that the banking departments of a number of States (but not Alabama) have requested and that the Federal Deposit Insurance Corporation has agreed to furnish them with a supply of the new form,

"somewhat modified to meet State requirements, for use on the next call. As you know, provision for such a memorandum item was made in the draft of the proposed revised call report form sent to all Federal Reserve banks with the Board's letter B-1106 of November 18, 1935 and, accordingly, the Board may later on consider including such an item in its Form 105."

Approved unanimously.

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

"This refers to your letter of June 1, 1936, presenting the question whether the Depositors Trust Company, Augusta, Maine, is required by the provisions of section 5136 of the Revised Statutes, the Comptroller's regulations regarding investment securities, and section 9 of the Federal Reserve Act to dispose of certain 7% serial bonds of the Bath Iron Works.

"It is understood that the bonds in question, amounting to $82,000, constitute all of the outstanding bonds of a total issue of $106,000, dated September 1, 1932, and maturing serially on dates to and including September 1, 1942; that the bonds are secured by a first deed of trust to the real estate constituting the plant of the Bath Iron Works; that on October 24, 1935, the Depositors Trust Company purchased for $80,360 all of the issue of bonds then outstanding, having a face value of $82,000, and in November, 1935, the Trust Company became successor trustee under the trust deed; that the bonds were carried in the Trust Company's investment account from the date of purchase until February 27, 1936, on which date they were transferred to its loan account; that the total amount of bonds purchased by the Trust Company is less than 60 per cent of the appraised value of the real estate securing them; and that the aggregate amount of the real estate loans of the Trust Company, including the bonds of the Bath Iron Works, does not exceed 60 per cent of the Trust Company's time and savings deposits.

"On page 21 of the report of examination of the Depositors Trust Company made as of the close of business on April 13, 1936, the examiner states that the purchase of the bonds of the Bath Iron Works appears to violate the provisions of section 9 of the Federal Reserve Act and the Comptroller's regulations regarding investment securities. In its letter dated May 23, 1936, the Trust Company states that

"it considers that these bonds are real estate loans which fall within the exception regarding real estate loans which comply with the requirements of section 24 of the Federal Reserve Act contained in the last two paragraphs of section I of the Comptroller's regulations.

"On the basis of the facts stated above, it is the view of the Board that, even if these bonds be considered as 'securities' within the meaning of section 5136 of the Revised Statutes and the Comptroller's regulations, they constitute a real estate loan which complies with the requirements made applicable to national banks by the provisions of section 24 of the Federal Reserve Act, and thus come within the exception contained in section I of such regulations. Accordingly, the Board is of the opinion that such bonds may lawfully be held by the Depositors Trust Company."

Approved unanimously.

Letter to Mr. Charles W. Hitschler, Philadelphia, Pennsylvania, reading as follows:

"This is in reply to your letter of June 5 addressed to the Chairman of the Securities and Exchange Commission and referred to the Board of Governors of the Federal Reserve System.

"You inquire in effect whether a broker, when he sells a registered security for a customer in a restricted account, is allowed by Regulation T to pay to the customer 55 per cent of the proceeds of the sale.

"Any payment made by the broker to the customer in connection with a sale of registered securities by the customer would constitute a 'net withdrawal' from the customer's account, and such a payment from a restricted account would therefore be prohibited by section 4(d) of the regulation, unless the sale caused the account to become an unrestricted account.

"It is suggested that any further inquiries you may have with respect to the provisions of the Board's regulations be addressed first to the Federal Reserve Bank of Philadelphia."

Approved unanimously.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Deputy Comptroller Lyons' letter of May 19, 1936, inquiring whether the discount with a national

"bank of commercial paper held by a hardware company which is solely owned by the president of the bank and indorsed by such company 'without recourse' is to be considered a violation of Regulation O or an attempt to evade the provisions thereof. It is understood that the president of the bank is engaged in the hardware business under a trade name and that such business is not incorporated. It appears that you have previously advised the president that the unqualified indorsement in the trade name of the hardware company of paper held by it and discounted with the bank was considered the equivalent of the indorsement of the president of the bank, thereby bringing him within the prohibitions of Regulation O and that, following such advice, the hardware company continued to discount with the bank notes owned by the hardware company which it had received for merchandise sold but now indorses such paper 'without recourse'.

"Section 1(c) of Regulation O defines the terms 'loan', 'loaning', 'extension of credit', and 'extend credit' as including, among other things, the acquisition by discount, purchase, exchange or otherwise of any note, draft, bill of exchange, or other evidence of indebtedness upon which an executive officer of a member bank may be liable 'as maker, drawer, indorser, guarantor, or surety', and it is further provided that such terms shall include any other transaction as a result of which an executive officer becomes obligated to a bank directly or indirectly by any means whatsoever, 'by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent'. Under the usual rules of law an indorsement 'without recourse' constitutes the indorser as the mere assignor of title to the instrument and such an indorsement is designed to protect the indorser from liability on the instrument. In the circumstances, it is the Board's view that where an executive officer merely indorses a note to his bank 'without recourse' and does not become liable to the bank on such instrument, the transaction does not fall within the provisions of section 22(g) or of Regulation O.

"While it might appear from the facts submitted that an indorsement 'without recourse' by the hardware company is an attempted evasion of the law, the fact remains that the transaction described is not now covered either by the terms of section 22(g) or the Board's Regulation O and it is doubtful whether cases of this kind are of sufficient importance or will arise with sufficient frequency to justify an amendment to the Board's regulation. If, however, you feel that the continued acceptance by the bank of the notes of the hardware company indorsed 'without recourse' is an unsafe or unsound

"practice, you might wish to consider proceeding against the president of the bank under the provisions of section 30 of the Banking Act of 1933. Furthermore, since the president of the national bank is required under the law also to be a director thereof, it is assumed that, if you have not already done so, you will determine whether the transactions conform to the requirements contained in section 22(d) of the Federal Reserve Act, relating to transactions between a member bank and its directors."

Approved unanimously.

Memorandum dated June 13, 1936, from Mr. Smead, Chief of the Division of Bank Operations, stating that, in connection with the study of "Bank suspensions" described in a memorandum presented informally to the Board under date of May 5, 1936, by Messrs. Morrill, Wyatt, Goldenweiser, Smead and Paulger, the sub-committee designated for the purpose had evolved a plan for classifying all member and nonmember banks in a number of different ways, e.g., according to population of city, size of bank, amount of Reconstruction Finance Corporation investment, ratio of demand to total deposits, and eligibility of nonmember banks for membership (according to capitalization). The memorandum pointed out that the most satisfactory source of the desired information in the case of nonmember insured banks was the condition reports on file at the Federal Deposit Insurance Corporation, and recommended with the concurrence of the senior staff that, in view of the fact that the proposed classifications of banks were likely to be of considerable value in making an analysis of the banking structure, Mr. Smead be authorized to negotiate with the appropriate officials of the Federal Deposit Insurance Corporation, either informally or by correspondence, with the view of having

the Corporation make available the December 31, 1935, condition reports of nonmember insured banks to the Board's staff for the purpose of taking off the desired data, or with the view of having the Corporation's staff take off the data on forms provided by the Board for the purpose; and that, in the negotiations with the Federal Deposit Insurance Corporation, Mr. Smead be authorized to advise the Corporation that the purpose of obtaining the data was to make it possible for the Board to make uniform classifications of all member and nonmember banks and that the classifications would be used largely to bring up to date some of the volumes completed in 1933 by the Federal Reserve System Committee on Branch, Group and Chain Banking. The memorandum stated further that the conclusion had been reached by the senior staff that corresponding compilations for member banks and for non-insured nonmember banks should be made by the Federal reserve banks, and that the Federal reserve banks should also be asked to make the primary groupings of all banks, both member and nonmember, in the various desired categories, the summary classifications to be made by the Board's staff on the basis of the district and State summaries prepared by the Federal reserve banks, and recommended that Mr. Smead be authorized to ask the Federal reserve banks to undertake this work. It was also stated in the memorandum that it had been estimated that the abstracting of the desired data for the approximately 7,500 nonmember insured banks would require a clerical staff equivalent to the time of one person for four or five months, and that, therefore, it might be necessary, in order that the classifica-

tion may be made available as early as possible, to employ some temporary clerical help for three or four weeks.

Approved unanimously.

Memorandum dated June 15, 1936, from Mr. Morrill submitting, at the request of Mr. Miller, and with the approval of the Board's architect, a recommendation that authority be granted by the Board to employ Mr. Ezra Winter as the artist to prepare a preliminary sketch or design of a map for the Board room of the new building and to paint and install the map if the preliminary sketch or design be found to be satisfactory to Mr. Miller. The memorandum stated that Mr. Winter's price for doing the work was $500 for the preliminary sketch and $4,200 for the map and its installation, with the understanding that in the event the design or sketch is approved the $500 will be treated as part payment on the total amount of the contract, which will be $4,200.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.