

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, June 22, 1936, at 2:30 p. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Broderick  
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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 3, 1936, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on June 4, 5, 6, 8, 10, 11, 12, 13, 15, 16, 17, 18, and 19, 1936, were approved and the actions recorded therein were ratified unanimously.

Telegram to Mr. Geery, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit to the "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of "The Third Northwestern National Bank of Minneapolis", Minneapolis, Minnesota, at any time prior to September 1, 1936, to authorize a reduction in capital stock, change in number of shares of stock and/or change in par value of shares of stock of such bank, and to make such amendments to the articles of association and/or by-laws of such bank as shall be

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necessary for such purposes, provided that all action taken shall be in accordance with a plan approved by the Comptroller of the Currency.

Approved unanimously.

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

"Receipt is acknowledged of your letter of June 16, 1936, with reference to Mr. Curtiss' letter of April 21, 1936, with which there was inclosed a letter dated April 21 from Mr. F. A. Carroll, Vice President of 'The National Shawmut Bank of Boston', requesting that paragraph 1(b) and (c) be eliminated from the agreement to be executed by 'Shawmut Association' as a condition to the issuance of a general voting permit. Consideration is being given to the letters referred to, as well as a letter of April 22, 1936, to Mr. McKee from Mr. Carroll relating to certain suggested amendments to the Declaration of Trust of Shawmut Association. You will be advised as soon as practicable of the action taken by the Board in these matters.

"Your letter called attention to the fact that the time within which Shawmut Association and The National Shawmut Bank of Boston shall each have obtained a voting permit entitling it to vote, for all purposes, the shares of stock owned or controlled by it of 'County Bank and Trust Company', Cambridge, Massachusetts, in accordance with condition of membership numbered 18 applicable to the latter bank, expires on July 1, 1936. In view of the short time remaining before such expiration the Board hereby extends to October 1, 1936, the time within which such condition of membership may be complied with, and it is requested that you advise those at interest accordingly."

Approved unanimously.

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

"This refers to your letter of June 6, 1936, and its inclosures, relating to the status of The Mercer County State Bank, Sandy Lake, Pennsylvania, as a holding company affiliate under the provisions of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

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"The Board has determined that The Mercer County State Bank is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, that bank is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to The Mercer County State Bank advising it concerning the Board's action in this matter. Please transmit the letter to that bank. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection, it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with  
a letter to The Mercer County State Bank,  
Sandy Lake, Pennsylvania, reading as follows:

"This refers to your bank's request that the Board determine that it is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

"The Board understands that your bank is engaged in the general banking business; that it owns 150 of the 250 outstanding shares of stock of The First National Bank of Stoneboro, Stoneboro, Pennsylvania; and that it does not own or control any stock of, or manage or control, any bank other than The First National Bank of Stoneboro.

"In view of the above facts, the Board has determined that your bank is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, your bank is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, your bank acquires control of any bank other than The First National Bank of Stoneboro, or the facts should at any time otherwise differ from those stated herein to an extent which would indicate that your bank might be en-

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"gaged as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

Letter to Mr. L. E. Birdzell, General Counsel of the Federal Deposit Insurance Corporation, reading as follows:

"This refers to your letter dated May 26, 1936, addressed to the Board of Governors and to your memorandum dated May 27, 1936, addressed to the Board's General Counsel, presenting certain questions regarding the interpretation of sections 1(e) of Regulation Q and Regulation IV.

"The first question presented in your letter is whether a member bank may, on a telephone order from a depositor, transfer a specified sum from the depositor's savings account to his checking account, under the provisions of section 1(e) of Regulation Q. You state that in your opinion such a practice should not be permitted under the provisions of section 1(e) of Regulation IV, but that if the depositor wishes to transfer funds from a savings account to a checking account he should be required to make a withdrawal either by obtaining cash or a cashier's check, draft, or other order payable to himself and then make a deposit in a checking account in accordance with usual banking practice.

"Careful thought has been given to this question and to the views which you express in your letter. In this connection it is to be observed that under Regulation Q a depositor desiring to effect a transfer of a sum from his savings account to a checking account in the same bank might go to the bank and obtain a cashier's check or cash from the savings account and deposit it in his checking account. Likewise, under the regulation a depositor may mail a written order to the bank for a withdrawal of a sum from his savings account, obtain a cashier's check through the mails and immediately return the cashier's check to the bank for deposit to his credit in his checking account. Under an arrangement with the bank for the purpose it would also be possible for a depositor to shorten this procedure by mailing a written order to the bank requesting a withdrawal from his savings account, the issuance of a cashier's check to him for the amount withdrawn, and the deposit of such check to his credit in a checking account. This could be accomplished by one written order or letter and without the depositor ever actually coming into possession of the cashier's check. Accordingly, it does not appear that the

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"regulation should be interpreted as preventing the transfer of a sum from a depositor's savings deposit to his checking account upon written order of the depositor, and it is felt that such an interpretation would be regarded by the banks as an irritating and unnecessary restriction on their business practices.

"However, the Board is of the view that a member bank should not be permitted to transfer a sum from a depositor's savings account to his checking account or permit any other withdrawal from his savings account merely on a telephone or other oral order or request from the depositor. While the regulation does not expressly so require, it does contemplate that a withdrawal from a savings deposit will be made only upon the written order or receipt of the depositor. In this connection, attention is called to the requirement that the depositor may at any time be required by the bank to give 30 days' notice in writing of an intended withdrawal and also to the requirement that every withdrawal made upon presentation of the pass book shall be entered therein at the time of withdrawal and every other withdrawal shall be entered therein as soon as practicable thereafter. The withdrawal of funds from a savings deposit in a case where the pass book is not presented, upon the oral request of the depositor, would facilitate evasion of the purpose of the regulation, would be inconsistent with sound banking practice and might give rise to numerous questions or even litigation between the bank and its depositors. The Board feels that such a practice should be discouraged and that a deposit with respect to which such withdrawals are permitted should not be classified as a savings deposit. While your inquiry presents the only case of this kind which has thus far come to the Board's attention, the Board will give consideration, upon the occasion of the next revision or alteration of its Regulation Q, to incorporating therein an express requirement that withdrawals from savings deposits be permitted only upon written order or receipt of the depositor.

"You also present the question whether deposits of a corporation, association, or other organization engaged in the sale and maintenance of cemetery lots may be classified as savings deposits, provided such organizations are not operated for profit. The Board agrees with your opinion that such organizations engaged in the sale and maintenance of cemetery lots may be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, within the meaning of section 1(e) of the regulations. Accordingly, if such organizations are in fact not operated for profit, their de-

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"posits in a member bank may be classified as savings deposits. As indicated in your proposed letter to The Savings & Trust Company of Indiana, Indiana, Pennsylvania, the question of whether such organizations are or are not operated for profit will have to be scrutinized very closely and the determination of such question will depend upon the facts and circumstances of each particular case.

"In your memorandum you also present the question whether deposits made by a city or town representing funds given to said city or town for the perpetual care of cemetery lots opened under a title similar to the following: 'City of \_\_\_\_\_, Perpetual Care, Trust Fund, John Doe Lot' may be classified as savings deposits. If the municipal corporation is merely a trustee holding funds for the benefit of a particular individual or group of individuals, such as the members of a family, it appears that a deposit of such funds by the municipal corporation may be considered in the same category as any other deposit of funds held by a trustee for the benefit of certain individuals, and may be classified by a member bank as a savings deposit if it meets the other requirements of section 1(e) of Regulation Q.

"However, it should be observed that the above expression of opinion applies only to those cases in which a municipal corporation holds funds as trustee for a particular individual or individuals, and does not apply to cases in which such funds are held for the benefit of the public.

"In its letter to the Federal Reserve Agent at New York dated February 27, 1936 (X-9508), the Board took the position that a deposit in the name of a municipal corporation consisting of funds given to such corporation for a charitable purpose, such as the erection of a memorial gate, may not be classified as a savings deposit. The Board stated that it believed that a construction of the regulation which would permit funds of a municipal corporation held for a charitable purpose to be considered as funds held for one or more individuals on the theory that the public consists of a group of individuals, would open the door to evasions of the regulation. Accordingly, a deposit made by the city consisting of funds held by it for the purpose of maintaining a cemetery for the public or for indigent members of the public could not under the above ruling be classified as a savings deposit by a member bank but would be considered the same as any other deposit consisting of funds of the municipal corporation.

"It is hoped that the above answers the questions submitted in your letter and memorandum. If you should have further questions regarding any similar matters which you desire to submit to the Board from time to time, the Board will be glad

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"to give consideration to them in order that substantial uniformity may be achieved in the interpretation of the two regulations."

Approved unanimously.

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

"This refers to your letter of May 14, 1936, inclosing a copy of a letter from William Cavalier and Company, concerning transactions by a broker for a customer in warehouse receipts for cash grain. It is understood that your first question is in effect whether or not a customer, whose account is restricted within the meaning of Regulation T and who sells such warehouse receipts held by the broker for his account, may withdraw the net proceeds of the sale on the day on which the broker receives them. You also ask in effect whether the proceeds might be so withdrawn if the receipts were delivered in settlement of grain 'futures' sold, and whether after such a delivery the customer might also withdraw such cash or registered securities as he might have deposited with the broker as margin in connection with his future commitment.

"We are in agreement with the position that you take, based on your analysis, that a cash account under section 6 of Regulation T cannot be used for the transactions outlined; and further that even though the customer's security account be restricted the broker may pay the proceeds of the sale of the warehouse receipts to the customer on the same day he receives them. Also as you point out, if grain 'futures' have been sold and are settled by the warehouse receipts, the broker may pay the net proceeds of the sale of the warehouse receipts to the customer on the day he receives them, even though the customer's account be restricted; but the broker may not allow the customer to withdraw any of the cash or registered securities deposited as margin except to the extent that the securities in the account have a loan value in excess of the amount necessary to make the account unrestricted.

"The foregoing interpretations of Regulation T are based on the language of the regulation as it now stands and would need to be reviewed in case the Board's consideration of the questions involved, especially as these may be affected by the recent passage of the Commodity Exchange Act, should lead to amendment of Regulation T as it affects transactions in commodity futures."

Approved unanimously.

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

"Reference is made to your letter of May 20, 1936, enclosing a copy of a letter addressed to the Federal Reserve of San Francisco on the same date by the California Security Dealers Association.

"The Board of Governors notes the suggestion by the Association that Regulation U be amended to provide higher loan values for securities of 'investment quality' and will take the suggestion into account in its continuous study of the problems presented by this regulation.

"The higher loan value of bonds for purposes of Regulation U arises from the provision of the Act excluding from the scope of that regulation a 'loan by a bank on a security other than an equity security'. The term 'equity security', as defined in the Act, includes all stocks and also certain bonds, but the Board's action in confining Regulation U to a loan 'secured by any stock' undertook to save the banks of the country and their customers, at least for the present, from the trouble of having to ascertain whether or not a given bond is an 'equity security'. This action of the Board, therefore, is not to be taken as implying any intent on the part of the Board to distinguish between securities having 'investment quality' and other securities."

Approved unanimously.

Letter to Mr. Albert J. Gurse, Los Angeles, California, reading as follows:

"Your letter of June 2, 1936 addressed to the Securities and Exchange Commission making certain inquiries in connection with the proposed organization of a corporation to make loans on securities listed on the New York Stock Exchange has been referred to this Board for reply.

"It is understood that your proposal to organize a corporation for the purpose of lending against securities registered on the New York Stock Exchange is only in its formative stage and in the absence of all of the facts the Board cannot advise you as to whether or not the conduct of such business would be subject to the regulations of the Board now in force.

"However, it may be that the following comments will be of some assistance to you and your associates. The Board's Regulation T applies to the extension and maintenance of



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"credit by members of national securities exchanges and by brokers and dealers transacting a business in securities through the medium of such members. The Board's Regulation U applies to the extension and maintenance of credit by banks for the purpose of purchasing or carrying any stock registered on a national securities exchange. Without discussing any problems that might arise in connection with such a corporation financing its operations through credit obtained from individuals or institutions now subject to the provisions of Regulation T or U and without discussing the effect of any State laws upon the question of whether or not transactions of such a corporation would be subject to the provisions of either of such regulations, it is only fair to state that for the purpose of preventing the excessive use of credit for the purpose of purchasing or carrying securities, the Board under the Securities Exchange Act of 1934, is authorized and might find it necessary to regulate the extension and maintenance of credit by others than are presently included within the scope of Regulations T and U. Consequently, it would appear advisable for you and your associates to give consideration to this eventuality in connection with your present plans.

"If you have any further inquiry it is believed that you will find it more convenient to communicate first with the Federal Reserve Bank of San Francisco, whose officers will be glad to answer your questions."

Approved unanimously.

Memorandum dated June 20, 1936, from Mr. Foulk, Fiscal Agent, recommending that an assessment of seven-tenths of one per cent (.007) of the total paid-in capital and surplus (Section 7 and Section 13b) of Federal reserve banks as of the close of business June 30, 1936, be levied to cover the expenses of the Board during the last six months of 1936, and \$1,250,000 to be added to the building fund for the Board's new building, and that the banks be instructed to pay in 20.5% of such assessment on July 1, 1936, 20.5% on September 1, 1936, and 59% at such times and in such amounts as the Board may call for the payment thereof during the six months period.

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The following resolution levying an assessment in accordance with the Fiscal Agent's recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, contains the following provisions:

'The Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and such assessments may include amounts sufficient to provide for the acquisition by the Board in its own name of such site or building in the District of Columbia as in its judgment alone shall be necessary for the purpose of providing suitable and adequate quarters for the performance of its functions. After approving such plans, estimates, and specifications as it shall have caused to be prepared, the Board may, notwithstanding any other provision of law, cause to be constructed on the site so acquired by it a building suitable and adequate in its judgment for its purposes and proceed to take all such steps as it may deem necessary or appropriate in connection with the construction, equipment, and furnishing of such building. The Board may maintain, enlarge, or remodel any building so acquired or constructed and shall have sole control of such building and space therein.

\* \* \* \* \*

'The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, \* \* \* and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys.'

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System for the six months period beginning July 1, 1936, and of the amounts which in the judgment of the Board may be needed during such period to provide for the costs, or part thereof, of the erection of a building suitable and adequate for the

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"Board's quarters, that it is necessary that a fund equal to seven-tenths of one per cent (.007) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks be created for such purposes, exclusive of the cost of engraving and printing of Federal reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, That:

"(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to seven-tenths of one per cent (.007) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1936.

"(2) Twenty and five-tenths per cent of such assessment shall be paid in on July 1, 1936, twenty and five-tenths per cent thereof shall be paid in on September 1, 1936, and the remainder (fifty-nine per cent) shall be paid at such times and in such amounts as the Board may call for the payment thereof during such six months period beginning July 1, 1936.

"(3) Every Federal reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Memorandum dated June 18, 1936, from Mr. Vest, Assistant General Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin, statements in the form attached to the memorandum with respect to the Board's recent rulings on the following subjects:

Maximum Rates of Interest Payable on Time Deposits under Regulation Q.

Applicability of Section 2(c) of Regulation U to Security

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Dealers "Making a Market" in Registered Stocks or Purchasing an Inventory of Such Stocks for Resale.

Applicability to Collateral for Loans Made Prior to May 1, 1936, of Provisions in Regulation U Governing Withdrawal or Substitution of Collateral.

Applicability of Section 2(f) of Regulation U to a Loan to a Dealer to Purchase Securities to Comply with Orders from Customers.

Approved unanimously.

Letter to Mr. McDonald, Federal Housing Administrator, prepared for the signature of Chairman Eccles, and reading as follows:

"Pursuant to your letter of June 18, 1936, regarding the status under Section 10(b) of the Federal Reserve Act of loans insured under the provisions of the National Housing Act, I have brought to the attention of the Board your request for an expression of the Board's views on the letter recently written by one of the Federal Reserve banks to a member bank which had inquired 'on what basis loans would be granted when secured by Federal Housing Administration mortgage or modernization loans.'

"The Board notes that the answer of the Federal Reserve Bank which you have quoted is as follows:

'Loans on the security of FHA Mortgage or Modernization Loans are not considered in the same category as the direct obligations of the United States or the guaranteed obligations such as Home Owners Loan Corporation bonds, and for that reason would not be eligible as collateral to a member bank's fifteen day note at our regular rediscount rate.

'There is no reason, however, why they would not be considered under Section 10b, in which Section Federal Reserve Banks are authorized to make loans to member banks on any sound assets owned by the member banks. The Board of Governors has not yet issued its new Regulation A, but this is our interpretation of the Act.'

"Section 10(b) of the Federal Reserve Act as amended on August 23, 1935, reads as follows:

'Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the

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"Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

"Any advance under this section must be secured to the satisfaction of the Federal Reserve bank, but there is no other limitation on the character of security which may be used for such an advance. Accordingly, it is the opinion of the Board that a Federal Reserve bank is authorized to make advances to a member bank under section 10(b) of the Federal Reserve Act upon the security of modernization loans insured under Title I of the National Housing Act or mortgage loans insured under Title II of the National Housing Act if such security is satisfactory to the reserve bank.

"Of course the question whether such loans would in particular cases constitute acceptable security must be determined by the Federal Reserve banks as and when requests for such advances are received from the member banks, but, if satisfactory, the Federal Reserve banks are at liberty to make advances to member banks upon any such security in accordance with the provisions of section 10(b) of the Federal Reserve Act."

Approved unanimously.

Letter to The George A. Fuller Company, Washington, D. C., reading as follows:

"In accordance with the provisions of Article 33 of the construction contract, you are hereby directed to cause the work covered by Allowance 'J', Landscape Work, in Section 1 of the Specifications, page S1-14, to be done by Towson Nurseries, Inc., of Towson, Maryland, for the sum of Forty nine thousand six hundred seventeen Dollars and Ninety cents (\$49,617.90).

"The Board of Governors reserves the right to require the Towson Nurseries, Inc. to provide, in accordance with the applicable specifications and its estimate, six scarlet oaks at places in the landscape design which have been designated therefor, at a cost of \$260.00 in addition to the contract price above specified.

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"You should, of course, make certain that all of the work covered by this allowance, as provided in the contract documents, is covered by the contract which you enter into with Towson Nurseries, Inc.

"In view of the fact that the price for the landscape work exceeds \$39,500.00, the amount named in the Specifications as the allowance for this work, the excess, namely, \$10,117.90 or \$10,377.90, as the case may be, will be added in making the adjustment in the contract sum resulting from differences between the amounts of the allowances named in the Specifications and the amounts for which the Board may direct the work to be done, as provided in said Article 33 and in paragraph 80 of Section 1 of the Specifications, page Sl-12.

"A copy of a letter of June 16 from Paul P. Cret in regard to the award of this contract and a copy of a letter dated June 12 from Towson Nurseries, Inc. to Paul P. Cret, submitting its estimate of \$49,617.90 for the work (exclusive of the six trees covered by the estimate of \$260.00) are inclosed herewith.

"In this case, because of changes which have been made since the original bid was obtained, it will be appreciated if before actually executing the contract with Towson Nurseries, Inc., you will submit the draft thereof for examination by this office in order that we may make certain that the work to be done is properly covered."

Approved unanimously, the sub-contractor referred to having been approved by the Board's architect, the Board's superintendent of construction and by Mr. Miller.

Thereupon the meeting adjourned.

Approved:

*W. S. Miller*  
Chairman.

*Robert Morris*  
Secretary.