

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 24, 1936, at 12:45 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 23, 1936, were approved unanimously.

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 the board of directors of the "Union State Bank, Rushville, Nebraska", Rushville, Nebraska, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation "H", and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City:

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

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Union State Bank, Rushville, Nebraska', Rushville, Nebraska, 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 Nebraska for his information.

"It has been noted that the bank has submitted a plan for the disbursement of a portion of its undivided profits through transfer of \$5,000 to reserve on account of retirement of preferred stock; transfer of \$2,000 to surplus; provision for depreciation on banking house, furniture and fixtures; and payment of \$1,200 in dividends on preferred and common stock. It has been reported that the State Banking Department has indicated that it would interpose no objection to the plan and that it would be pleased to act in harmony with the desires of the Board of Governors and in your letter of June 9 to the Board you have recommended that the bank be permitted to make the disbursement as requested. The proposed transactions do not require the approval of the Board, and the Board will interpose no objection thereto. It is assumed, of course, that the transactions are in accordance with the statutory provisions and the regulations of the State banking authorities."

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

"Reference is made to your letter of June 16, 1936, transmitting with a favorable recommendation a request of the 'West Side Trust Company', Newark, New Jersey, for an extension of time within which the bank may comply with the following condition of membership:

- '21. Such bank shall, as soon as practicable and

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"in any event within six months from the date of admission to membership, 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."

"The bank was admitted to membership on January 6, 1934, and the Board has previously granted four extensions of the time within which the bank might comply with the provisions of the condition, the last of which expires on June 30, 1936.

"It has been noted that since January 10, 1936, the bank has disposed of 514 shares of its own stock held as collateral, that of the 1,364 shares still held as collateral 1,000 shares are held to secure in part a line now in the process of liquidation on which a substantial payment has recently been made, and that the remaining 364 shares are held as part collateral to loans of four of the individuals who assumed their liability on the indebtedness to the bank of Nathan Bilder, Trustee, in connection with which the shares in question were acquired as collateral.

"In view of all the circumstances and your recommendation, the Board extends to December 31, 1936, the time within which the West Side Trust Company may comply with the provisions of membership condition numbered 21, and it is requested that you advise the bank accordingly."

Approved unanimously.

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

"This refers to your letter dated June 11, 1936, in answer to the Board's letter of June 1, 1936, regarding the Gimbel Brothers Foundation accounts of Gimbel Brothers Bank & Trust Company, Philadelphia, Pennsylvania.

"You state that you have investigated this matter and have found that the deposits do not now comply with the definition of savings deposits in Regulation Q in that (1) there is nothing in the contract between the bank and the employee-depositor relieving the bank of the obligation to pay 3 per cent interest, whether or not it is reimbursed by Gimbel Brothers, Inc., and (2) the pass book withdrawal clause is defective in that it provides for withdrawals in cases of emergencies and does not provide that the bank may require at least 30 days' notice of intended withdrawals.

"You further state that the bank proposes to substitute



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"in the pass book the set of rules inclosed with your letter, which contains, among others, the following paragraphs:

Interest will be credited annually at the rate of 2% per annum to be paid by the bank together with 1% per annum to be paid from funds advanced by Gimbel Brothers, Inc. for that purpose when, as and if such funds are advanced, and such interest due will be calculated by calendar months, and no interest will accrue for the fractional part of a month or on the fractional part of a dollar.

The bank reserves the right to require 30 days notice for the withdrawal of all or any portion of the account represented herein.

"Under the provisions of section 1(e)(1) of Regulation Q, a deposit may not be classified as a savings deposit unless the depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made. The withdrawal provision quoted above does not require that the 30 days' notice be in writing and should be amended to conform to the requirements of the regulation in this respect.

"On the basis of the facts stated in your letter, the Board is of the opinion that, if the proposed rules governing Gimbel Brothers Foundation accounts are adopted and the above correction is made in the withdrawal provision, these deposits may be classified by Gimbel Brothers Bank & Trust Company as savings deposits and that the payment of interest in accordance with the above-quoted rule will not be inconsistent with the provisions of Regulation Q."

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 8, 1936, and its inclosures, relating to the holding company affiliate status of United States National Corporation and The United States National Bank of Portland, both of Portland, Oregon.

"In view of the advice received from United States National Corporation that it is content with its present status as a holding company affiliate and with the voting permit which has been granted it, no consideration will be given to the question whether the Board might properly determine

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"that that corporation 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.

"It is noted that The United States National Bank of Portland expressed the opinion that a request for such a determination with respect to it is not in order because it is not a holding company affiliate. The Board understands that United States National Corporation owns or controls all or substantially all of the stock of Clark County National Bank of Vancouver, Vancouver, Washington, and that all of the stock of United States National Corporation is held by trustees for the benefit of the shareholders of The United States National Bank of Portland, under an agreement executed by such bank, its shareholders, and certain trustees, under date of January 8, 1929. From the copy which accompanied the voting permit application of United States National Corporation, it appears that such agreement provides, in part, as follows:

'The number of trustees herein created shall be five (5), all of whom shall be directors of the bank. If any trustee shall cease to be a director of the bank, he shall simultaneously, as a matter of course, cease to be a director of the "United States National Corporation", and in the case of the death, disability or resignation of any trustee hereunder, then his office of trustee shall be declared vacant, provided a majority of the trustees shall remain capable of acting, and in such case, the remaining trustees shall forthwith elect a successor or successors. If less than a majority of said trustees remains, then the board of directors of the bank, from among their number, shall fill the vacancy by a resolution of said board of directors of the bank, certified over its seal and under the hand of its cashier, which shall be conclusive on all parties hereto.' (Underscoring supplied)

"It is also noted that the by-laws of United States National Corporation provide, in part, as follows:

'The officers of this corporation shall consist of a board of seven directors, each of whom must, in order to be qualified to act, be a member of the board of directors of The United States National Bank of Portland (Oregon), \* \* \*.' (Underscoring supplied)

"In view of such facts, it appears that The United States

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"National Bank of Portland controls United States National Corporation and, thus, controls the stock which that corporation owns or controls of Clark County National Bank of Vancouver. Accordingly, it comes within the following provisions of section 2(c) of the Banking Act of 1933:

'(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization--

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or \* \* \*.'

In the past, other organizations have been deemed to be holding company affiliates under similar facts and have filed applications for voting permits.

"However, the Board understands that The United States National Bank of Portland was organized and is operated for the purpose of engaging in the general banking business; that it does not own or control any stock of, or manage or control, any bank other than Clark County National Bank of Vancouver; and that it was not organized and is not operated for the purpose of managing or controlling banks.

"In the light of such facts, the Board has determined that The United States National Bank of Portland 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. By reason of such determination, The United States National Bank of Portland is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act and, therefore, it is not necessary for it to obtain a voting permit.

"However, if The United States National Bank of Portland should acquire control of any bank other than Clark County National Bank of Vancouver or if the facts should at any time otherwise differ from those set out above to an extent which would indicate that such bank might be engaged 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.

"As you know, the Board does not ordinarily make the above-mentioned determination with respect to an organization unless there is a pending voting permit application or a request for such a determination. However, in view of the



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"peculiar circumstances and in order to dispose of the matter expeditiously, the Board has deemed it desirable to do so in this instance. Unless there are further facts which you believe should be considered by the Board, it is suggested that you forward the inclosed copy of this letter to The United States National Bank of Portland, together with any additional comments which you desire to make."

Approved unanimously.

Letter to Bear, Stearns & Co., New York, New York, reading as follows:

"Your letter of May 28, 1936, addressed to the Securities and Exchange Commission making certain inquiries with respect to section 3(f)(8) of Regulation T has been referred to this Board for reply.

"It appears that in connection with purchases of securities for a foreign customer it has been your practice to make formal demand for margin immediately by means of cable and that your customer has expressed some annoyance at this procedure. It also appears that this action has been taken by you pursuant to section 3(f)(8) of Regulation T and you inquire as to whether it is mandatory upon you to make such demands.

"Section 3(f) of Regulation T provides a formula for the ascertainment of the 'adjusted debit balance' in a particular account for the purpose of determining whether or not such account is restricted. In arriving at the 'adjusted debit balance' certain deductions are allowed and among them is the deduction set out in clause (8) of subsection (f) of section 3. If without this deduction, the account would be a 'restricted' one and it is therefore necessary to use it in determining the 'adjusted debit balance', you are advised that it is mandatory that a demand for such margin be made in compliance with the provisions of the subsection.

"In considering your inquiry the following statement has been noted in the copy of your customer's letter, 'The shares we purchased yesterday will be paid in full, and the purchase money is not due before tomorrow.' While the facts are not sufficiently set forth to definitely fix the transaction as such, your attention is invited to section 6 of Regulation T governing 'Cash Transactions' as to which transactions demand for margin is of course unnecessary.

"It is hoped that upon the basis of the above statement you can make satisfactory explanation to your customer. How-

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"ever, in the future, if you should have any further questions concerning this or any similar matter, it is suggested that you may find it more convenient to communicate with the Federal Reserve Bank of New York, the officers of which bank are fully equipped and will be glad to answer your inquiries."

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 May 15, 1936, inclosing a copy of your correspondence with Union Bank & Trust Company, Los Angeles, California, with reference to the applicability of Regulation F to State member banks, and suggesting that, in admitting State banks to membership, the Board might prescribe a condition requiring such banks to comply with the provisions of Regulation F.

"While no further revision of the standard conditions of membership is contemplated at this time, your suggestion will be borne in mind in connection with any future revision. However, it may be noted that there would appear to be grave doubts concerning the Board's authority to prescribe a condition requiring compliance with Regulation F as it might be revised or amended from time to time and it would seem questionable whether, as a practical matter, it would be desirable to prescribe a condition requiring compliance with such regulation in the form in force on the date on which each particular bank is admitted to membership. The Board will, of course, be glad to receive any further comments which you may wish to make concerning the matter.

"It is entirely appropriate to advise a State member bank, as you did in this instance, that the Board feels that it is desirable for any member bank, whether State or national, to conduct its trust department in accordance with the principles and practices outlined in Regulation F."

Approved unanimously.

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

"This refers to your letter of June 8 with respect to reports on indebtedness of officers and employees in the Fed-



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eral Reserve agent's department, submitted in accordance with the Board's letter (B-1125) of December 26, 1935.

"In view of the changes which will occur in the list of officers and employees of the Federal Reserve agent's department in consequence of the transfer to the bank of the non-statutory duties of the Federal Reserve agent, you ask for information as to whether you should proceed at once, as you have done in the past, to call for information with respect to the indebtedness as of July 1, 1936, of the some thirty-five employees in your department.

"In the case of most of the Federal Reserve banks the actual transfer of non-statutory duties from the agent to the bank will not have been made by July 1. In order, therefore, that reports from all Federal Reserve agents may be on a uniform basis, it is requested that your report cover all employees in the agent's department, including those in the examination and statistical departments, which it is contemplated will be transferred to the bank."

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

Letter to the Federal reserve agents at all Federal reserve banks,

reading as follows:

"There have been forwarded to you today under separate cover copies of Form 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending June 30, 1936.

"It will be noted that the form has been revised to show separately six items which heretofore have been combined with other items. The new items, together with their definitions, are as follows:

"Item 1(h) - Rent received. - Gross income from rental of banking house, other real estate, safe deposit boxes, etc.

"Item 2(c) - Fees paid to directors and members of executive, discount, and advisory committees. - Total amount of fees paid to directors and members of committees for attendance at Board or committee meetings. (Retainer and other fees paid outside counsel should not be included in this item. Such fees, including court and recording costs and fees paid to notaries, should be included with 'other expenses', Item 2(j).)

"Item 2(h) - Real estate taxes. - Taxes paid or accrued

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"on bank premises and on other real estate owned by the bank.

"Item 2(i) - Other taxes. - Federal, State and municipal taxes paid or accrued, other than taxes on real estate.

"Item 4(b) - Recoveries on bonds, stocks, and other securities. - Recoveries of amounts charged off as losses or as depreciation on bonds, stocks and other securities against Item 6(b) (including any premium charged off and recovered upon the sale of securities).

"Item 4(c) - Profits on securities sold. - Profits representing an excess of sale price, over purchase price less premium amortization, of bonds and other securities sold or exchanged. Any amounts previously charged off (including premium charged off but not premium amortized) which is recovered at the time of the sale of securities should be shown in Item 4(b).

"The above definitions correspond with definitions of the same items included in revised instructions (Form 2129-A) governing the preparation of earnings and dividends reports which are being issued to national banks by the Comptroller of the Currency.

"In the examination of the reports on Form 107, it is suggested that particular attention be paid to the reconciliation of the capital accounts as shown against Items 14 to 17 with the corresponding items as shown in condition reports on Form 105, and the items shown in Section 3 with the corresponding items in the report for the immediately preceding report period."

Approved unanimously.

Letter to Mr. N. S. North, Cashier, The First National Bank of Lake Charles, Lake Charles, Louisiana, reading as follows:

"This refers to your letter dated March 20, 1936, addressed to the Comptroller of the Currency, presenting the question whether certain documentary drafts drawn upon various purchasers located in Puerto Rico may be considered as cash items in process of collection, within the meaning of section 1(g) of Regulation D. Your letter was received on June 8, 1936, from the Comptroller of the Currency.

"While not entirely clear, it is assumed that the documentary drafts to which you refer are payable upon arrival of the shipment of goods against which they are drawn. If this is the case, it is the view of the Board that such items are not payable immediately upon presentation and, therefore, may not be considered as cash items in process of collection.

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"The facts regarding these documentary drafts are not stated fully in your letter and, therefore, it is possible that the Board's understanding of the facts as stated above is not correct. If this should be the case, or if for any other reason 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 Atlanta, which will be glad to answer your inquiries."

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 'D', Interior Decoration, in Section 1 of the Specifications, page Sl-13, to be done by Gustav Ketterer, 17th Street at Sansom, Philadelphia, Pennsylvania, for the sum of Ten Thousand Five Hundred and No/100 (\$10,500.00) Dollars.

"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 Gustav Ketterer.

"In view of the fact that said sum of \$10,500.00 exceeds \$10,200.00, the amount named in the Specifications as the allowance for this work, the excess, namely, Three Hundred and No/100 (\$300.00) Dollars, 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 the estimate submitted by Gustav Ketterer, dated April 21, 1936, is inclosed herewith."

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.



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Thereupon the meeting adjourned.

Chester Morice  
Secretary.

Approved:

W. Scales  
Chairman.