

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 1, 1936, at 12:15 p. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Broderick  
Mr. Szymczak  
Mr. Davis

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 30, 1936, were approved unanimously.

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 approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 27, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mrs. Louise Sissman, a research clerk in the Division, be granted leave of absence without pay for a period of twenty-six days, from July 20 to August 14, 1936, inclusive, in order to attend the summer session at Columbia University.

Approved unanimously.

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Letter to Mr. Andrew Welch, San Francisco, California, reading as follows:

"Mr. Szymczak has advised the Board of his recent talk with you at San Francisco regarding the matter of your eligibility to continue to serve as a director, in view of the contents of the Board's letter of January 3, 1934, and the provisions of the Clayton Act as amended.

"The Banking Act of 1935 repealed Section 8A of the Clayton Act, under which the particular question arose, and also amended Section 8, and, upon the basis of the information contained in your biographical sketch of February 13, 1936, from which it appears that your only other business connections are with Welch & Co., the Matson Navigation Company and the Honolulu Oil Company, the Clayton Act does not now preclude your continuance as a director of the Federal Reserve Bank of San Francisco."

Approved unanimously.

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

"This refers to your letter of May 26, 1936, and to Mr. Gidney's letter of May 19, 1936, and their inclosures, relating to the status of Banco Nacional de Mexico, Mexico City, Mexico, 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.

"The Board has determined that Banco Nacional de Mexico 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 Banco Nacional de Mexico 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 connec-

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"tion, 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 Banco Nacional de Mexico, Mexico City, Mexico, reading as follows:

"This refers to the request made on behalf of your bank by your New York agency that the Board determine 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.

"The Board understands that your bank is engaged in the general banking business in Mexico; that it owns 4,146 of the 8,000 outstanding shares of stock of The Harbor State Bank, New York, New York; that it owns 13,840 shares of the stock of the Banco de Mexico, the central bank of Mexico, which is controlled by the Mexican government and is not engaged in commercial banking; that it owns some stock of a number of credit institutions in Mexico, but that it does not own or control a substantial portion of the stock of, or manage or control, any of such institutions; that it does not own or control any stock of, or manage or control, any banking institution other than those referred to above; and that it is not operated for the purpose of managing or controlling banks.

"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 Harbor State Bank, or the facts should at any time otherwise differ from those stated herein to an extent which would indicate that your 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."

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

"Receipt is acknowledged of your letters of June 4, and June 12, 1936, raising further questions regarding the subject matter of my letter to you of May 20.

"The new case presented by you involves a borrower who wishes to make an unsecured loan for the purpose of purchasing a registered stock, which the bank is willing to make if it is permitted by Regulation U. However, the borrower has outstanding a loan for another purpose made prior to May 1, 1936, secured by stock and a general loan agreement is in effect by which the collateral securing each loan to the borrower also secures all other loans.

"The questions presented are two: first, whether the bank may make the loan if the collateral securing the first loan is insufficient, without a change in the loan agreement; and second, whether it may make the loan if it waives its rights under the loan agreement to have the collateral serve as security for the new loan.

"As stated in our letter to you of May 20, if a general loan agreement be in effect by which collateral securing each loan also secures all other loans, the loan value of collateral specifically pledged or allocated to loans not subject to the regulation such as the loan made prior to May 1, 1936, may be considered as a basis for making or increasing loans subject to the regulation. As a result of this, the loan made after May 1 for the designated purpose will be secured by stock and so subject to the regulation. If the stock pledged for the previous loan is insufficient to satisfy the requirements applicable to making an additional loan, sufficient additional collateral must be obtained to comply.

"These conclusions, as you will observe, result from the general lien of the loan agreement. If, however, the lien of the later loan is effectively waived as to the collateral securing the previous loan, the later loan, if not itself secured by any stock, will not be subject to the regulation and no additional collateral will then be necessary."

Approved unanimously.

Memorandum dated June 27, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, requesting that additional amounts of \$400 for subsistence expenses, and \$800 for transportation

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expenses, be granted for the budget of the Division of Research and Statistics for the year 1936.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Mowbray

Secretary.

Approved:

W. C. ...

Chairman.