

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 3, 1936, at 11:00 a. m.

PRESENT: Mr. Broderick
Mr. Szymczak
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Mr. Morrill reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as at the close of business on June 30, 1936, and that, in accordance with the usual practice, a call was made on behalf of the Board of Governors of the Federal Reserve System on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board
was approved unanimously.

Telegrams to Messrs. Kimball and Clark, Secretaries of the Federal Reserve Banks of New York and Atlanta, respectively, stating that the Board approves the establishment without change by the New York bank on June 30, 1936, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated July 2, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary

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appointment for a period of three months of Miss Lois L. Barnett as a clerk in the Division, with salary at the rate of \$120 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

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

"Reference is made to your letter of June 30 in further reference to the proposed retirement of Messrs. M. W. Bell, Cashier, R. A. Sims, Assistant Cashier, and J. W. Honour, Assistant Auditor, at the Head Office of the Federal Reserve Bank of Atlanta, and in regard to the proposed retirement of Mr. W. S. Johns, Chief Clerk of the Credit Division, Discount Department, at Atlanta.

"The Board in a letter dated June 30, 1936, stated that it would interpose no objection to the payment of not to exceed six months' salary in cash to Messrs. M. W. Bell, R. A. Sims, and J. W. Honour upon their retirement and authorizes a similar payment in the case of Mr. W. S. Johns."

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to your telephone conversation of June 30 with Mr. Paulger, and supplementing the Board's letter to you of June 26, 1936, in regard to the salaries of certain officers of your bank, the Board approves for Mr. H. L. Diehl, Assistant Cashier at the Detroit branch, a salary at the rate of \$4,500 per annum, retroactive to January 1, 1936."

Approved unanimously.

Letter to Mr. Stewart, Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

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"Referring to your letter of July 1, 1936, the Board has requested me to advise you that it notes without objection that you plan to be away from the Federal Reserve Bank of St. Louis on vacation from July 6 to July 31, both dates inclusive, and that both Assistant Federal Reserve Agents will be at the Bank during your absence."

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 dated June 22, 1936, with respect to the classification by the Sanford Trust Company, Sanford, Maine, of the Town of Sanford 'Cemetery' account and the Town of Newfield 'Ethan Stone High School Fund' account as savings deposits under the definition contained in section 1(e) of Regulation Q.

"You state that, in the opinion of your counsel, the Town of Sanford 'Cemetery' account is eligible as a savings deposit under Regulation Q, inasmuch as these funds are held by the Town of Sanford or in the names of certain town officials as trustee or trustees under a trust agreement executed by the cemetery committee and the Town Treasurer for the benefit of the specific lot owners, and that the town has no legal title to these deposits except the title ordinarily held by a trustee, beneficial interest in the deposits being in the lot owners. On the basis of these facts, it appears that the Town of Sanford 'Cemetery' account may be classified by the trust company as a savings deposit if it complies with the other requirements of section 1(e) of Regulation Q.

"With respect to the Town of Newfield 'Ethan Stone High School Fund' account, you state that your counsel is of the opinion that such account is not eligible as a savings deposit under Regulation Q in view of the fact that no beneficial interest resides in specified and ascertained individuals. There appears to be no reason to disagree with the opinion of your counsel that, on the basis of the above facts, the Town of Newfield 'Ethan Stone High School Fund' account may not be classified by a member bank as a savings deposit."

Approved unanimously.

Letter to Mr. Joshua Evans, Jr., Vice President, Hamilton National

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Bank, Washington, D. C., reading as follows:

"This refers to your letter dated June 26, 1936, regarding the question whether a deposit of the National Fertilizer Association, Inc. may be classified by your bank as a savings deposit under the definition contained in section 1(e) of Regulation Q.

"Under the provisions of section 1(e), a deposit of a corporation may not be classified by a member bank as a savings deposit unless the corporation is not operated for profit and, in addition, is operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes.

"It appears from the certificate of incorporation and by-laws inclosed with your letter that the National Fertilizer Association, Inc. was organized by manufacturers and importers of fertilizer materials for the purpose of increasing the use of fertilizers and advancing the interests of the fertilizer industry. On the basis of these facts, it appears that, without regard to the question whether or not the corporation is operated for profit, it is not operated primarily for the purposes stated in section 1(e) of Regulation Q. Accordingly, a deposit of the association may not be classified by a member bank as a savings deposit.

"In accordance with your request, the Yearbook containing a copy of the certificate of incorporation and by-laws of the National Fertilizer Association, Inc. is returned herewith."

Approved unanimously.

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

"This refers to Deputy Comptroller Lyons' letter of June 17, 1936, inquiring whether the \$2500 exemption contained in section 22(g) of the Federal Reserve Act and section 3 of the Board's Regulation O applies to a partnership in which an executive officer of a member bank has a majority interest.

"Section 22(g) provides that 'borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be

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"considered within the prohibition of this subsection'. The only prohibition contained in section 22(g) is that 'no executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers'. There are certain exceptions to this prohibition, one of which is 'that with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding \$2500'.

"It will be noted that this exception, by its terms, is not applicable to partnerships of the kind described. However, since it was not the purpose of the law to prevent an executive officer to become indebted to his member bank to the extent of \$2500, under the conditions prescribed, there would seem to be no purpose of the law to prevent such a partnership from doing likewise. Moreover, in some circumstances, the executive officers of a member bank may find it desirable for an obligation not in excess of \$2500 to be in the nature of a partnership obligation rather than of the individual executive officer's. As you know, under the usual principles of law applicable to partnerships each partner is individually liable for the debts of the partnership, and under the Board's authority to prescribe such regulations 'as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes', section 3 of the regulation has been drafted so as to permit a partnership of the kind described to borrow from a member bank, provided that, as a result of such borrowing, an executive officer of the member bank does not become indebted to such bank in an amount in excess of \$2500."

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of April 24, 1936, with inclosures, in which you call attention to the fact that the Valley National Bank, Des Moines, Iowa, which was absorbed by the Valley Savings Bank, Des Moines, Iowa, a nonmember institution, on March 11, 1933, has not yet been placed in

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"voluntary liquidation by its stockholders nor has a receiver been appointed by the Comptroller of the Currency. It is noted that you have taken the matter up with the Superintendent of Banks of the State of Iowa and with the Comptroller of the Currency with a view to having the Valley National Bank either placed in voluntary liquidation or a receiver appointed therefor, in order that the Federal Reserve bank stock held by such bank may be canceled, and that the Executive Committee of your bank has instructed you to place the matter before the Board of Governors for its suggestions or determination of the matter.

"It appears that the Superintendent of Banks of the State of Iowa is strongly of the opinion that the placing of the Valley National Bank in liquidation or receivership at this time may have a serious adverse effect upon the Valley Savings Bank, a going institution, and that the Deputy Comptroller of the Currency, in his letter to you, dated March 9, 1936, states that, although his office considers it advisable for a national bank to go into voluntary liquidation promptly after its discontinuance of business, in view of special circumstances which may exist, he feels that in this case the appointment of a receiver may be properly postponed for another year, but before coming to a conclusion requests your views regarding the matter.

"The Board is in general agreement with the office of the Comptroller of the Currency that a national bank should be placed in liquidation promptly after it ceases to do business. However, where special circumstances are involved in a particular case they, of course, should be considered. Whether or not you should insist that the Valley National Bank be placed in liquidation or receivership in order that the Federal Reserve bank stock may be canceled is a matter which should be considered primarily by your Executive Committee and the board of directors of your bank, since you are much more familiar with all of the circumstances involved, including the local situation, than the Board. Accordingly, the Board does not feel that it can advise you definitely in the matter. Any conclusions reached by your Executive Committee or board of directors, together with the reasons therefor, should be communicated directly to the Comptroller of the Currency as contemplated in section 8 of Regulation I, as revised effective January 1, 1936.

"In connection with the withholding of dividends upon the Federal Reserve bank stock held by the Valley National Bank pending liquidation or receivership, the Board knows

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"of no reason why it should disagree with the views of the Executive Committee and counsel for your bank that this cannot legally be done."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

Jack Broadbent
Member.