A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 15, 1936, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dembitz, Research Assistant, Division of Security Loans

Mr. Parry presented a memorandum addressed by him to the Board under date of July 13, 1936, copies of which had been sent to all members of the Board and in which he submitted for consideration certain amendments to Regulations T and U which he felt should be made at the time any change is made in the margin requirements prescribed in the regulations on loans by brokers and dealers and by banks to their customers. He stated that he saw no necessity for making a change at this time in the maximum loan value of 45% prescribed by the regulations on securities pledged as collateral for loans by brokers and dealers and by banks to their customers, but that he felt it would be desirable, for reasons
set forth in a memorandum prepared by him under date of July 14, 1936, to increase from 60% to 75% the maximum loan value of securities pledged by brokers and dealers to secure loans made for the purpose of carrying accounts for customers. He also suggested that the maximum loan value of 80% prescribed in Regulation T for securities in a special account with a distributor, syndicate, etc., which special account complies with subsection (c) of section 3 of Regulation T, be reduced to 75%.

Mr. Parry's recommendations were discussed and the opinion was expressed by some of the members of the Board that, while the allowance of a greater spread than the 15% permitted by a maximum loan value of 60% on securities pledged by brokers and dealers as collateral for loans to carry accounts for customers might be advantageous to some brokers and dealers, the necessity for such action at this time was not apparent, particularly when it would follow immediately the action taken yesterday with respect to reserve requirements of member banks, and therefore might be unjustifiably interpreted by the securities markets as designed to stimulate stock market activity. Mr. Broderick, however, indicated that he felt that there was sufficient merit in the proposal to justify favorable action at this time.

In connection with the recommendation contained in Mr. Parry's memorandum of July 13, 1936, that subsection (c) of section 3 of Regulation T be amended to enable a broker subject to the regulation to carry the account of a registered odd-lot dealer on the same preferential basis as a bank is permitted to do by amendment No. 1 to Regula-
lation U, the suggestion was made that there was no immediate need for such an amendment and that it could be considered when other amendments were approved at some later date.

Thereupon Mr. Szymczak moved that the Board defer further consideration of Mr. Parry's recommendations until such date as shall later be determined by the Board.

Carried, Mr. Broderick voting "no" for the reason that he felt the maximum loan value of 60% on securities pledged by brokers and dealers as collateral for loans to carry accounts of customers should be increased to 75%.

Mr. Ransom referred to the letter addressed by the Board on April 17, 1936, to the Federal Deposit Insurance Corporation suggesting the use by the Corporation of the term "insured bank of the Federal Deposit Insurance Corporation" instead of the term "member of the Federal Deposit Insurance Corporation". He stated that he had discussed this matter with representatives of the Corporation on several occasions and that, while he had abandoned hope of influencing the Corporation to change its present practice, he would continue his discussions until the matter was definitely settled.

It was agreed by unanimous vote that no further action should be taken by the Board on the matter.

Mr. Ransom then referred to the action taken at the meeting of the Board on March 6, 1936, in referring to him for recommendation the suggestion that the maximum interest rate of $1\frac{1}{2}$% on time and savings deposits prescribed in Regulation Q, be reduced. He recommended that
consideration of the matter be deferred until a change in existing circumstances calls for further consideration by the Board.

Mr. Ransom's recommendation was approved unanimously.

In connection with the publication by State member banks of condition reports in publications with limited circulation, which matter was referred to Mr. Ransom on July 7, 1936, for such consideration as he saw fit, he stated that he planned to discuss the matter with the Comptroller of the Currency and representatives of the Federal Deposit Insurance Corporation and that he would recommend that no further action be taken by the Board on the matter at this time.

Mr. Ransom's recommendation was approved unanimously.

Mr. Ransom then stated that he was making a study of the previously prepared revision of Regulation A, "Discounts Under Sections 13 and 13a", and that he would submit a draft of the Regulation to the Board with his recommendation as promptly as possible. In this connection, Mr. Broderick stated that he would be absent from Washington for a period of approximately three weeks beginning July 17 and that he would like to have an opportunity to review the final draft of the regulation before action is taken thereon by the Board. He was assured that such an opportunity would be afforded.

Mr. Ransom referred to the resolution adopted by the board of directors of the Federal Reserve Bank of Atlanta with respect to the
discontinuance of the Havana Agency on which action was deferred at the meeting of the Board of Governors on March 31, 1936, until he could have an opportunity to study the question of the continuance of all of the branches and agencies of the Atlanta bank. He stated that because of his illness he had not had an opportunity to look into the matter, and recommended that it be tabled until September 1, 1936, and that he contemplated that Mr. Broderick and he would take up the matter during a visit to the Atlanta bank prior to that date.

Mr. Ransom's recommendation was approved unanimously.

At this point Messrs. Goldenweiser, Parry and Dembitz withdrew from the meeting.

Reference was made to the action taken by the Board at the meeting on April 29, 1936, in citing the Forney State Bank, Forney, Texas, to appear at a hearing before the Board on June 16, 1936, to show cause why its membership in the Federal Reserve System should not be terminated, to the fact that the bank waived its right to appear at a hearing before the Board and that no one appeared before the Board on behalf of the bank on June 16, 1936, and to the hearings held at the Federal Reserve Bank of Dallas on May 25, 27 and 29, 1936, on the matter, following which a recommendation was received from the board of directors of the Federal reserve bank, in which the Federal Reserve Agent and the President of the bank concurred, that the Board terminate the bank's membership. The Federal Reserve Agent had suggested, however,
that the order terminating membership be held for two weeks or more for the reason that he felt that when the State Bank Commissioner was advised of the Board's action he would then be in a position to force the resignation of Vice-President Reagin, in which case the Federal Reserve Bank might recommend that the expulsion proceedings be dismissed. In connection with this matter there was presented a memorandum dated July 15, 1936, from Mr. McKee recommending that, for the reasons stated in a memorandum dated July 9, 1936, from Assistant General Counsel Wingfield, the Board address a letter to the Forney State Bank terminating its membership effective thirty days after the receipt of such letter by the bank, with the understanding that such letter would be transmitted through the Federal Reserve Agent with appropriate instructions, and if within the thirty-day period, the State banking authorities accomplished the elimination of the unsatisfactory management, the letter terminating the bank's membership could be withdrawn prior to the effective date. The memorandum also called attention to the recommendation of the Division of Examinations that expulsion proceedings be held in abeyance and that the Federal Reserve Agent be requested to institute proceedings under section 30 of the Banking Act of 1933 for the removal of Vice-President Reagin and to the suggestion of Mr. Paulger that, even though the Board should decide to expel the bank, it might be well for the matter to be discussed with the board of directors of the Forney State Bank by President McKinney and the Fed-
eral Reserve Agent prior to the effective date of such expulsion. In this connection, it was stated that President McKinney was in Washington at the present time and would not return to Dallas until about the end of July.

After a discussion, Mr. McKee’s recommendation was approved unanimously with the understanding that the letter to the Federal Reserve Agent at Dallas, transmitting the letter to be forwarded by him to the Forney State Bank terminating its membership, will instruct that the Agent, upon the return of President McKinney to Dallas, transmit the letter to the member bank and that before the end of the thirty-day period after receipt of the letter by the member bank, a meeting be arranged by President McKinney and the Federal Reserve Agent with the board of directors of the bank for the purpose of discussing the matter with the directors with a view to having the directors make the necessary corrections and thereby avoid the loss of membership by the bank.

It was understood that Counsel’s office would prepare the letters contemplated by this action.

At this point Messrs. Davis and Paulger left the room.

Mr. Broderick called attention to the Board’s letter of March 9, 1936, to the Federal Reserve Bank of Chicago advising that the Board was willing to approve the salary of Mr. C. R. McKay, as Vice President of the bank, only until September 1, 1936, and recommended that the Board approve the continuance of Mr. McKay’s services as Vice President until he is sixty-five years of age by authorizing the payment of salary
to him in that position at the rate of $12,000.00 per annum. Mr. Broderick stated that this recommendation was based upon a feeling on his part, following discussions of the matter with officers of the Federal Reserve Bank recently, that the best interests of the Federal Reserve System would be served by such action.

After a discussion, it was decided, by unanimous vote, to advise the Federal Reserve Bank of Chicago that the Board approves the payment of salary at the rate of $12,000.00 per annum to Mr. McKay as Vice President of the bank, for the period from September 1, 1936, to February 28, 1937, inclusive, with the understanding that at the time the salaries fixed for officers of the bank for the year 1937 are submitted to the Board for approval the Board will give consideration to what, if any, further action should be taken with respect to Mr. McKay.

This action was taken with the further understanding that should Mr. McKay's services be terminated on February 28, 1937, the bank would be authorized, should the board of directors approve such action, to pay to the retirement system such amount as may be necessary together with Mr. McKay's own contributions to provide for him an annual retirement allowance in an amount equal to the allowance to which he would be entitled if he were sixty-five years of age on the date of the termination of his service.

Consideration was then given to a memorandum dated July 7, 1936, from Mr. Smead calling attention to a letter received by the Board under date of July 2, 1936, from Mr. Owen D. Young, Deputy Chairman of the Federal Reserve Bank of New York, in which he submitted the recom-
mendation of the board of directors of the bank that the Board approve
increases in the salaries of certain junior officers and employees of the
bank as shown below, effective as of January 1, 1936, or, failing that,
effective July 1, 1936:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Present Annual Salary</th>
<th>Proposed Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herbert H. Kimball</td>
<td>Assistant Vice President and Secretary</td>
<td>$7,500</td>
<td>$8,500</td>
</tr>
<tr>
<td>Arthur Phelan</td>
<td>Assistant Vice President</td>
<td>6,500</td>
<td>8,000</td>
</tr>
<tr>
<td>Valentine Willis</td>
<td>Assistant Vice President</td>
<td>6,500</td>
<td>7,500</td>
</tr>
<tr>
<td>Silas A. Miller</td>
<td>Mgr., Securities Department</td>
<td>5,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Horace Sanford</td>
<td>Assistant Secretary</td>
<td>4,800</td>
<td>5,400</td>
</tr>
<tr>
<td>W. F. Treiber</td>
<td>Assistant Counsel</td>
<td>4,800</td>
<td>5,600</td>
</tr>
<tr>
<td>Norman P. Davis</td>
<td>Securities Exchange Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>John H. Hartley</td>
<td>Chief, Credit Department</td>
<td>5,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Gustav Osterhus</td>
<td>In charge of trust examinations</td>
<td>6,000</td>
<td>7,500</td>
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The letter stated that, when the final report on the survey now
being made of the organization and personnel of the bank was submitted to
the Board, the general proposals of the directors with respect to salaries
of officers of the bank would be submitted for approval, but that the
increases referred to above were being submitted as deserving special
consideration at this time and as complying with the policy of the Board
that there should be no increases in salaries except in exceptional cir-
cumstances or in case of a change from one position to another of greater
duties and responsibilities. Mr. Smead's memorandum stated that, as the
recommended increases seemed to be reasonable and in keeping with the
policy of the Board, it was recommended that they be approved effective as of July 1, 1936.

Upon motion by Mr. Broderick, the salaries recommended by the directors of the Federal Reserve Bank of New York as set forth above were approved, effective July 1, 1936, with the understanding that Mr. Broderick would discuss further with President Harrison the desirability of terminating at an early date the services of Mr. Seldon O. Martin who was employed on a temporary basis in connection with the industrial loan activities of the bank.

At this point Messrs. Thurston, Wyatt and Smead left the meeting and consideration was given to each of the following matters 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 July 14, 1936, were approved unanimously.

Telegram to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, 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.

Memorandum dated July 15, 1936, from Mr. Morrill recommending the temporary appointment, for a period not to exceed two months, of Miss Dorothy M. Parkhill as a stenographer in the Office of the Secretary, with salary at the rate of $110 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.
Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with recommendation contained in your letter of July 10, 1936, and upon basis of information furnished by you, Board approves the proposed net reduction of $500,000 in capital stock of 'California Bank', Los Angeles, California, under the plan submitted, with the understanding that transaction has approval of State supervisory authorities and that your Counsel is satisfied as to legal aspects involved."

Approved 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 First National Bank of Appleton", Appleton, Minnesota, and "The Northwestern National Bank of Dawson", Dawson, Minnesota, at any time prior to October 15, 1936, to act upon proposals providing for the assumption of the liabilities of The First National Bank of Appleton by, and the transfer of assets of such bank to Northwestern State Bank of Appleton, and providing for the assumption of the liabilities of The Northwestern National Bank of Dawson by, and the transfer of assets of such bank to Northwestern State Bank of Dawson, and to take such further action as is necessary in each case to effect such assumption of liabilities and transfer of assets, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

Approved unanimously.
Letter to Mr. Benjamin Arac, New York, New York, reading as follows:

"This will acknowledge receipt of your letter of July 7, 1936, making inquiry as to the availability for inspection of reports required under section 14(g) of the Federal Reserve Act and Regulation N of this Board. In reply, you are advised that such reports and the information contained in them, except in so far as it may be included in the annual report of this Board to Congress, are regarded as confidential.

"However, if you have a particular case in mind, it might prove helpful for you to make inquiry of the Federal Reserve Bank of New York, the officers of which bank will be glad to assist you, if possible."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

[Signature]
Chairman.

Approved:

[Signature]
Secretary.