

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 30, 1936, at 3:00 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. McKee
Mr. Ransom
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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 28, 1936, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 29, 1936, were approved and the actions recorded therein were ratified unanimously.

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

"Re your letter May 8, 1936, regarding request of 'Citizens State Bank', Puyallup, Washington, for permission to retire \$10,000 of capital debentures held by R. F. C. The Board has given consideration to the various phases of the case, including the fact that the debentures in question were issued for the protection of depositors in a temporary and emergency situation which no longer exists, and, in view of the apparently satisfactory condition of the bank, the adequacy of its remaining capital, and other related facts and circumstances, and of your favorable recommendation, interposes no objection to the proposed retirement. Principles set forth in X-9475 to which you referred are not applicable to banks located in places the population of which exceeds 3,000 inhabitants and Board's position

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"stated herein is based upon the facts and circumstances involved in the particular case and is not intended to establish a precedent. Any similar cases which arise should be submitted to the Board for its consideration."

Approved unanimously.

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

"This refers to your letter of June 20, 1936, in which you have called attention to the fact that, during 1934 and the early part of 1935, certain trust companies in your district were admitted to membership in the Federal Reserve System subject to a condition of membership which, without specifying any exceptions, prohibits them from engaging in the business of acting as agent in the purchase and sale of real estate, or of acting as agent for others in the renting of real estate, while in the case of other trust companies more recently admitted to membership the Board has prescribed the following condition of membership:

'Such bank shall not, except to the extent usually necessary in the transaction of a commercial banking or trust business, directly or indirectly, engage in the business of dealing in real estate or other properties, either for its own account or as agent for others, or of acting as agent for others in the renting of real estate, in the collection of rents thereon, or in care, custody and management of real or personal property, * * *.' (Under-scoring supplied)

"You have inquired whether the exception contained in the above quoted condition of membership may be considered as being applicable to the trust companies which have accepted a condition of membership in which such an exception was not specifically made. The latter condition of membership was not intended to preclude a member State bank from engaging in real estate operations of the kind referred therein if such operations are considered to be usually necessary in the transaction of a commercial banking or trust business, and the Board has ruled that, under a similar condition of membership which was prescribed for a member State bank in another State, the bank is not prohibited from renting, selling or disposing of real estate in connection with

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"the administration of trusts in which it is authorized to act. In the circumstances, the Board feels that all State member banks in your district subject to a condition of membership covering their real estate operations which does not contain the exception referred to above may be considered as having the benefit of such exception.

"You have also requested advice as to whether this exception is applicable to a case in which a trust company subject to the condition of membership enters into an agreement to act as custodian and agent, whereby it will collect and account for the income on certain securities deposited with it, and will have the care, custody and management of two parcels of real estate on which it will collect the rentals and pay the taxes. You have explained that, while you do not have sufficient information in this case definitely to indicate the relative importance of the management of the securities in comparison with the management of the real estate, there are many trust companies in your district which have entered into trust agreements of this kind, and that the activities engaged in thereunder constitute an important part of the trust business handled by such institutions. It is the view of the Board that where an agreement of this kind represents a bona fide fiduciary undertaking, the management of the real estate and collection of rents being an incident to the administration of the trust, and such an agreement does not represent merely an undertaking to carry on a real estate business of the kind described in the condition of membership, the type of relationship involved is one which it is contemplated would come within the exception under discussion."

Approved unanimously.

Letter to Mr. Wood, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of July 24, 1936, transmitting the request of the 'State Bank of Steeleville', Steeleville, Illinois, for permission, in accordance with the provisions of membership condition numbered 8, to expend not to exceed \$15,000 in the construction of a new banking house.

"In view of your recommendation and the fact that the proposed investment does not appear to be unduly large or

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"improper or otherwise violate the spirit or purpose of condition numbered 8 prescribed in connection with the bank's application for membership, the Board interposes no objection to the expenditure of an amount not to exceed \$15,000 for such purpose, and it is requested that you advise the bank accordingly.

"It is suggested that, if you have not already done so, you acquaint the bank with the Board's views, which are known to your office, with respect to making adequate provision for depreciation in banking quarters owned."

Approved unanimously.

Letter to Mr. Attebery, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Referring to your letter of July 25, the Board notes with approval the action of the Executive Committee of your bank on July 24 in authorizing a charge against profit and loss account of the loss sustained on a commitment to the First National Bank of Louisville covering a \$25,000 loan to the Red Cap Battery Corporation in Louisville.

"The amount of the loss on which the Federal Reserve bank is liable should of course be reported on Form B-23 against the item 'Losses charged off (other than those charged to reserves)'. At the end of the year should expenses in connection with industrial advances and commitments and losses on industrial advances exceed earnings from industrial advances and commitments, the appropriate portion of such excess of expenses and losses should be charged to Surplus (Section 13b)."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading as follows:

"There is inclosed, for your information, a copy of the Board's letter of July 22, 1936, to the Federal Reserve Bank of New York, from which it will be noted that the Board has approved the extension by the bank of a loan, against the security of gold to be earmarked at the Federal Reserve Bank of New York, to the Banco de Venezuela, Caracas, Venezuela.

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"The Board approves the participation in the loan, if made, by the other Federal reserve banks."

Approved unanimously.

Letter to Mr. John F. Moran, Cashier of Cooley & Company, Hartford, Connecticut, reading as follows:

"This is in answer to your letter of July 7, 1936 making further reference to questions presented in your previous letter.

"In the case presented, which we understand to be a hypothetical case, you take in effect the position that the credit extended is extended altogether on registered securities and not to any extent on the unregistered securities that constitute a part of the new issue. This is a question, as indicated by the Board's letter of June 30, 1936, that involves interpretation of the meaning of section 11(d) of the Securities Exchange Act of 1934, as to which jurisdiction is vested in the Securities and Exchange Commission and not in the Board of Governors of the Federal Reserve System. Its enforcement on the penal side, moreover, vests in the Attorney General, upon whom an interpretation of any administrative body would not necessarily be binding. For these reasons it is believed to be inadvisable for the Board to express any opinion on the point presented by your question, especially in view of the fact that the case is a hypothetical one.

"It is suggested in the circumstances that when the question you raise becomes a practical one in your business, you consult your own attorney and be guided by his advice."

Approved unanimously.

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

"Consideration has been given to the question raised in your letter of May 8, 1936, regarding the applicability of section 8 of the Clayton Act to a director of Massena Savings and Loan Association, Massena, New York, who is also serving as a director of a member bank.

"The memorandum of counsel for your bank which accompanied your letter shows that Massena Savings and Loan Asso-

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"ciation is a mutual association operating in substantially the same manner as the usual building and loan association, selling shares to its members upon installment payments, and making loans to them upon the security of its shares and of real estate. It further appears that the association is not authorized to receive deposits.

"In view of this information it appears that Massena Savings and Loan Association should not be regarded as a 'bank' or 'banking association' within the meaning of section 8 of the Clayton Act, and that therefore that section is not applicable to a director of a member bank serving as a director of that association."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

W. Steeles

Chairman.