

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 7, 1936, at 11:00 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

The Secretary stated that there had been received in the Board's offices this morning a memorandum from Mr. Rudolph Forster, Executive Clerk of the White House, inclosing a copy of an Executive Order signed by the President on August 6, 1936, designating Mr. Ransom as Vice Chairman of the Board of Governors of the Federal Reserve System. The Executive Order read as follows:

"DESIGNATING THE VICE CHAIRMAN OF THE BOARD OF
GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

"By virtue of and pursuant to the authority vested in me by section 10 of the Federal Reserve Act (38 Stat. 260) as amended by section 203 (a) of the Act of August 23, 1935, (49 Stat. 704), I hereby designate Ronald Ransom as Vice Chairman of the Board of Governors of the Federal Reserve System, to serve as such for a term of four years."

Consideration was then 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 August 6, 1936, were approved unanimously.

Telegrams to Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, Mr. Young, Secretary of the Federal Reserve Bank

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of Chicago, 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 New York bank on August 6, 1936, and by the Cleveland, Chicago, Kansas City and Dallas banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated August 5, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Rose Ella Hubacher as a stenographer in the Division, with salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 5, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment for a period of three months of Miss Mary Jane Haddock 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.

Telegram to Mr. Burke, Federal Reserve Agent at the Federal Re-

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serve Bank of Cleveland, reading as follows:

"Board approves bonds executed by N. R. Matter as Assistant Federal Reserve Agent, and Lester Henk as Alternate to Assistant Federal Reserve Agent, at Federal Reserve Bank of Cleveland. Section 4 of Federal Reserve Act provides that, subject to Board's approval, Federal Reserve Agents 'shall appoint one or more assistants', and bonds executed by Matter and Henk specifically recite that their appointments in capacities described were made by 'Federal Reserve Agent at the Federal Reserve Bank of Cleveland'. The fact that the appointments were made by you in these cases is not clearly shown by the Board's records. Accordingly, in order to clarify the record and to eliminate any possible question regarding the correctness of the recitals in these bonds, it will be appreciated if you will write a letter to the Board stating that you have appointed Matter and Henk in such capacities."

Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of July 30 in regard to a special election to choose a successor to Mr. Frederick S. Chamberlain to serve as Class A director until December 31, 1937.

"The classification of member banks approved by the Board of Governors of the Federal Reserve System last year, under which Group 2 member banks include banks having a combined capital and surplus of more than \$300,000 and not over \$1,200,000, should be observed unless in your opinion a reclassification of member banks for electoral purposes is desirable, in which case the Board should be furnished with detailed information and a recommendation for its consideration.

"In the absence of Mr. Curtiss it is suggested that official communications in regard to this special election be issued over the signature of the Deputy Chairman."

Approved unanimously.

Letter to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of July 27 advising

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"that in order to provide for fees to be paid the Chairman and Federal Reserve Agent for attendance at meetings of the Board of Directors or of the Executive Committee the Board of Directors at your bank, at a meeting held on July 23, 1936, adopted the following resolution subject to the approval of the Board of Governors of the Federal Reserve System:

'VOTED that, subject to the approval of the Board of Governors of the Federal Reserve System, a fee of \$20.00 be paid to each director in attendance at any meeting of the Board of Directors or at any separate meeting of the Executive Committee of said Board; provided that the fees paid to any director for attendance at a meeting of the Board of Directors and a meeting or meetings of the Executive Committee, or other committee or committees, held on the same day shall not exceed the sum of \$30.00.'

"The Board of Governors of the Federal Reserve System approves the fees fixed by your Board for the directors of the Federal Reserve Bank of San Francisco for attendance at any meeting of the Board of Directors and of the Executive Committee as provided for in the above resolution."

Approved unanimously.

Letter to Mr. Knoke, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of August 1, 1936, with which you inclosed a copy of a letter of the same date addressed by the Federal Reserve Bank of New York to the Danmarks Nationalbank, Copenhagen, Denmark, setting forth the terms and conditions under which an account for that bank will be maintained on your books. It is noted that it was felt that the recent change in the name of the central bank afforded an opportunity to obtain the agreement of the bank to a new letter of terms and conditions substantially along the lines of the terms and conditions prescribed by your bank more recently in connection with other foreign central banks seeking accounts with you.

"Your letter and inclosure have been brought to the attention of the members of the Board and your letter to the Danmarks Nationalbank has been noted with approval. It is assumed that, if you have not already done so, you will

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"forward a copy of that letter to the other Federal reserve banks for their information."

Approved unanimously.

Letter to Mr. Dawes, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of your letter of July 27, 1936, addressed to the attention of Dr. Carl E. Parry, Chief of the Division of Security Loans, in which you quote an inquiry to you on Regulation U as follows:

'Where the purpose of a loan is to purchase and carry shares of stock which although not listed are being distributed by underwriters who propose to register the shares on a national securities exchange, does such a loan fall within the meaning of the Regulation?'

"A loan is not subject to the regulation if, at the time when it is made, it is not made for the purpose of purchasing or carrying any stock registered on a national securities exchange, and the status of a loan that was exempted at the time it was made, because its purpose was that of purchasing unregistered stock, is not subsequently altered by the registration of that stock. The purpose of purchasing an unregistered stock which may be registered at some undetermined time in the future is not sufficient to subject the loan to Regulation U, even if there is a present intent to register it. Nor is this loan for the purpose of 'carrying' a registered stock as defined in Regulation U, even though, before the loan is retired, the stock becomes a registered stock.

"To the extent that your advice to the inquiring bank differs from the opinion above, it would appear to be in order for such advice to be corrected."

Approved unanimously.

Letter to Mr. James Reiner, Vice President, Union Commercial Corporation, New York, New York, reading as follows:

"This refers to your letter of July 24, 1936, requesting information with regard to the acceptability of bonded

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"warehouse liquor receipts as collateral by banks.

"Section 13 of the Federal Reserve Act authorizes a Federal Reserve bank to discount bankers' acceptances made by member banks which are secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples. In 1920 the Board ruled that a warehouse receipt covering whisky in bond which can be removed only for very specific or limited purposes is not a receipt conveying or securing title to 'readily marketable staples' within the meaning of this statute and that, therefore, such a receipt is not a proper basis for a banker's acceptance of the kind described. This ruling was published in the Federal Reserve Bulletin for May 1920, at page 494, and a copy is inclosed for your information. However, the Board has not passed upon this question since the repeal of the national prohibition laws.

"As expressly pointed out in the 1920 ruling, it had no relation to the legal right of banks to make loans upon the security of warehouse receipts covering whisky in bond, nor did it relate to the acceptability of liquor receipts as collateral for such loans. Whether or not a bank will make a loan upon the security of such a receipt is a question for its own determination in the light of the circumstances of the case.

"Under the Federal Reserve Act, Federal Reserve banks may discount for their member banks paper which arises out of commercial or industrial transactions and has a maturity at the time of discount of not more than 90 days. The eligibility of paper for discount under this authority, however, does not depend upon the existence or nature of collateral security but upon the purpose for which it is drawn or the use of the proceeds. Paper based on or secured by alcoholic beverages which is issued or drawn for an industrial or commercial purpose, or the proceeds of which are used for such purpose, and which has a maturity not in excess of that specified, may be discounted by a Federal Reserve bank. Moreover, even though paper does not meet the technical requirements of eligibility for discount by a Federal Reserve bank, it may be used as security for advances by the Reserve bank to a member bank under the provisions of section 10(b) of the Federal Reserve Act on loans having maturities of not more than four months, if such security is satisfactory to the Federal Reserve bank. Advances under section 10(b) are required to bear a rate of interest at least one-half of one

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"per cent higher than the rate at which such Federal Reserve bank discounts commercial or industrial paper for member banks. Of course, a Federal Reserve bank is not required to make any advance or discount and the question whether or not it will do so in particular cases must be determined by the bank as and when requests for credit accommodations are received.

"It is hoped that the above will give you the information which you desire."

Approved unanimously.

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letters of June 1, 1936, and July 27, 1936, and their inclosures, and to your telegram of July 27, 1936, all relating to an inquiry from BancOhio Corporation, Columbus, Ohio, concerning the proper interpretation of subsections (b) and (c) of section 5144 of the Revised Statutes of the United States as applied to that corporation.

"You inquire whether the Board concurs in your counsel's opinion, a copy of which accompanied your letter of June 1, 1936. It is impossible to anticipate all of the questions which may arise concerning the interpretation of such statutory provisions and any general explanation without reference to specific questions is apt to be inaccurate and misleading and may result in misunderstandings. The Board is not prepared at this time to concur in all of the general statements contained in the opinion prepared by your counsel and, accordingly, it is suggested that such opinion not be furnished to BancOhio Corporation.

"It appears that the specific question prompting the inquiry by BancOhio Corporation concerns the determination of the amount, if any, of readily marketable assets other than bank stocks which, under the provisions of section 5144, that corporation will be required to possess, free and clear of any lien, pledge, or hypothecation of any nature, on June 16, 1938, if it then holds a voting permit. The Board is of the opinion that such amount must equal 12 per centum of the aggregate par value of all bank stocks owned or controlled by that corporation on June 16, 1938, with respect

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"to which statutory liability is then imposed upon the holders of such bank stocks, but that the bank stocks then owned or controlled by that corporation with respect to which no statutory liability is then imposed on the holders of such bank stocks are not to be considered in determining such amount. It must be noted that the foregoing assumes (as the Board understands is the case) that the shareholders of BancOhio Corporation are not individually and severally liable in proportion to the number of shares of such corporation held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such corporation by reason of its control of shares of stock of banks.

"If BancOhio Corporation has any other specific question upon which it desires advice and will furnish full information concerning the facts having a bearing thereon, the Board will be glad to advise as to its views on such question. If any such question is submitted, the Board, of course, will appreciate having a copy of an opinion of your counsel on the question for its assistance in considering the matter."

Approved unanimously.

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

"There is inclosed a copy of a letter, dated July 13, 1936, which the Board has received from the Commissioner of Banks of the Commonwealth of Massachusetts. While his letter is not entirely clear, it appears that he desires to be furnished with a copy of the report of credit investigation of the Exchange Trust Company, Boston, Massachusetts, a suspended member of the Federal Reserve System, made as of November 17, 1931, by the examiners for your bank.

"As you know, section 9 of the Federal Reserve Act authorizes the Board, in its discretion, to furnish copies of reports of examinations of State member banks 'to the State authorities having supervision of such banks', and it is now the practice of the Federal Reserve banks to furnish to the State banking authorities for their confidential and official use copies of reports of examinations or credit investigations made by their examiners of State member banks. This practice seems desirable in order to further and maintain harmonious relations with the various State banking authorities.

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"The Board does not have available a copy of the report of credit investigation referred to above, although it has a copy of the analysis thereof, but it is understood that the report is on file among the records of your bank. In the circumstances, if you know of no reason why a copy of the report should not be furnished, it is requested that, except for the confidential section, if any, you furnish a copy of such report of credit investigation to the Massachusetts Commissioner of Banks, with the understanding that it is for his confidential and official use and that it will not be introduced as evidence in any litigation involving the Exchange Trust Company.

"The letter of the Commissioner of Banks refers to an 'audit prepared by one of your agents', and, while, as indicated above, his letter is not entirely clear, it is assumed that such reference also has to do with the report of credit investigation made as of November 17, 1931. However, if you find that the Commissioner desires any other information, you may deem it advisable to communicate with the Board further before furnishing such other information. Please advise as to the disposition which is finally made of this matter."

Approved unanimously.

Letter to Mr. N. S. Gandy, President, The American National Bank,
Santa Monica, California, reading as follows:

"This refers to your letter dated July 2, 1936, addressed to the Secretary of the Treasury, regarding a statement in an editorial in the Los Angeles Times that a bank may turn its Government bonds in to the Federal Reserve bank and secure currency, regardless of the selling price of the bonds. As stated in the letter to you from the Acting Secretary of the Treasury, your letter has been referred to the Board for further reply to the questions regarding the Federal Reserve System.

"The editorial indicates that it is the custom of member banks to take Government bonds to a Federal Reserve bank and exchange them for currency. As a matter of fact, however, a member bank usually obtains currency from the Federal Reserve bank, in such amounts as are required to meet the needs of its customers for cash, by ordering a shipment of currency and having the amount thereof charged against its reserve balance with the Federal Reserve bank.

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"The reserve balance of a member bank may be replenished by depositing therein the proceeds of discounts of eligible paper, funds derived from advances by the Federal Reserve bank to the member bank, funds accruing to the member bank from the clearing of checks through the Federal Reserve System, or funds obtained from various other sources. There are set forth below the methods by which member banks may obtain credit upon the security of United States Government securities if, under all the circumstances of the particular case, the Federal Reserve bank believes that the requested credit should be extended.

"Under the provisions of the eighth paragraph of section 13 of the Federal Reserve Act, any Federal Reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States.

"Under the provisions of section 10(b) of the Federal Reserve Act, any Federal Reserve bank may make advances to any member bank on its time or demand notes which have maturities of not more than four months and which are secured to the satisfaction of the Federal Reserve bank. Such notes must bear interest at a rate not less than one-half of 1 per cent per annum higher than the rate at which the Federal Reserve bank discounts commercial paper. The use of United States Government securities as collateral for such advances would be legally permissible.

"Furthermore, under the provisions of the second paragraph of section 13 of the Federal Reserve Act, any Federal Reserve bank may discount for its member banks notes, drafts, and bills of exchange covering investments in bonds and notes of the Government of the United States, including Treasury bills and certificates of indebtedness, when such paper has a maturity at the time of discount of not more than 90 days.

"With reference to the statement in the editorial from the Los Angeles Times of July 2, 1936, that a bank can turn its Government bonds into the Federal Reserve 'for a bank-note issue of 100 per cent of their face', you are advised that the Federal Reserve Act contains no provision relating to the amount of credit which a Federal Reserve bank may extend upon the security of United States obligations.

"A Federal Reserve bank is not required to extend credit to a member bank under any provision of the law, and the question whether it will do so is one for the determination of

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"the Reserve bank to which a request for credit accommodation is made, in the light of the circumstances of the particular case. If the Federal Reserve bank decides that credit should be extended in a particular case upon the security of United States Government bonds or upon any other security, the question whether credit will be extended in an amount equal to the full face amount of such security, or for a greater or lesser amount, is one for the determination of the Federal Reserve bank under all of the circumstances of the case under consideration.

"It is hoped that the above information will answer the questions which you have in mind. However, if 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 San Francisco, which will be glad to answer your inquiries."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Forrest Fraser
Vice Chairman.