

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 29, 1936, at 3:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Director of the Division of Security Loans
Mr. Bradley, Assistant Director of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Chase, Assistant Counsel

Mr. H. J. Whigham, who had come to Washington from New York to see Mr. Davis, advised the Board informally, as a result of a previous invitation extended to him, regarding factors entering into the relative convenience and cost of trading in American securities in the New York and London markets which had come under his observation. At the conclusion of his talk the Board expressed its appreciation of his courtesy in the matter and he, together with Messrs. Parry and Bradley, withdrew from the meeting.

There was a further discussion of the draft of a memorandum of procedure with respect to foreign relationships of Federal reserve banks with special reference to purchases by the Federal Reserve Bank of New York of bills in this country for the account of foreign banks or bankers

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with agreements to repurchase or with the guarantee, indorsement or other liability of the Federal reserve bank. Certain features of the most recently executed forms of agreements with foreign central banks were considered and the view was expressed that the outstanding agreements should be reviewed in the light of existing conditions and a procedure adopted under which they will be renewed or reviewed periodically in the future. At the conclusion of this discussion, Mr. Goldenweiser left the meeting.

Consideration was then given to a memorandum dated October 29, 1936, prepared by Mr. Chase and approved by Mr. Wyatt setting forth the suggestions of Counsel as to the procedure to be followed in connection with the hearing on November 5, 1936, in the case of Mr. H. S. Johnson, President of the Point Pleasant National Bank, Point Pleasant, West Virginia, under section 30 of the Banking Act of 1933. The principal point to which consideration was given was the question whether the Board's Counsel should undertake to present the evidence underlying the Comptroller's certificate rather than Counsel for the Comptroller of the Currency. The suggestion was made that it might be inadvisable to place the Board's Counsel in the position of presenting such evidence and at the same time being called upon to act as Counsel to the Board on any questions of law that might arise during the course of the hearing and that it would be preferable for the Comptroller's Counsel to present the evidence, with the understanding that Counsel for the Board, as well as members of the Board, would ask such questions as in their opinion might be necessary or desirable in order fully to develop all the facts and perfect the record, in

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addition to which an opportunity would be accorded to Mr. Johnson and his attorney to cross-examine the witnesses presented by the Comptroller's Counsel, following which Mr. Johnson would have the privilege of making such statements or offering such evidence as he might desire in his own behalf, the thought involved in the suggestions being that in this manner the Board's position as an impartial tribunal would be most fully protected. Mr. McKee was inclined to favor the view that the Board's Counsel should present the evidence underlying the Comptroller's certificate. Mr. Ransom stated that at first he had been of this view but after considering the various aspects of the matter had changed his opinion and felt that the Board's Counsel should not be placed in this position. Chairman Eccles indicated that he favored the latter view.

Mr. Davis moved that the office of the Comptroller of the Currency be advised that it is the Board's expectation that his Counsel will present the evidence in support of the Comptroller's certificate, and that the Board, with the Chairman presiding, will hear all of the evidence thus presented, will afford an opportunity to Mr. Johnson to cross-examine the witnesses and to present any evidence in his own behalf that he may desire; that the Board's Counsel will be expected to ask any questions or assist the Board in any way that may seem desirable with a view to developing all the facts and perfecting the record; and that members of the Board will have the privilege of asking any questions they may desire of any witness in order to clear up any questions that may exist in their minds.

Carried unanimously.

A further question arose as to a suggestion contained in Mr. Chase's memorandum that Mr. Johnson might be asked whether he desired to say anything to the Board which he would prefer not to say in the presence of any representative of the Comptroller's Office. Mr. McKee felt that he

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should be accorded such an opportunity. After discussion the other members agreed that it would be preferable not to make any suggestion of this kind to Mr. Johnson or his attorney, but that if Mr. Johnson or his attorney should make such a request the question should then be dealt with in the light of the circumstances, with the thought that if the Board felt it necessary to make any further investigation in connection with the evidence presented, the hearing might be adjourned to be resumed after such investigation had been made.

It was agreed by the Board, upon the advice of Counsel, that the observance of technical rules of evidence should not be required at the hearing.

It was further agreed that a representative of the Board's Division of Examinations should be present at the hearing in order to be available for such advice upon technical matters as the Board might desire and with a view, if necessary, to making any subsequent investigation that the Board might find necessary.

At this point Messrs. Thurston, Wyatt, Dreibelbis and Chase left the meeting and 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 October 28, 1936, were approved unanimously.

Telegram to Mr. Moore, Chairman of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its

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existing schedule.

Approved unanimously.

Bonds, each in the amount of \$50,000, executed under date of October 23, 1936, by Mr. Jere V. D. Stryker as Assistant Federal Reserve Agent, and under date of October 28, 1936, by Messrs. Norman C. Cooper and Robert H. Phinney as Alternate Assistant Federal Reserve Agents at the Federal Reserve Bank of New York.

Approved unanimously.

Letter to Miss Dorothy E. Quinn, Takoma Park, Maryland, reading as follows:

"In accordance with the request contained in your letter of October 26, 1936, to Mr. Paulger, the Board of Governors of the Federal Reserve System hereby accepts your resignation as a stenographer in its Division of Examinations, effective as of the close of business on October 31, 1936."

Approved unanimously.

Letter to the board of directors of the "Solvay Bank", Solvay, New York, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York:

- "4. As soon as practicable, such bank shall dispose of any loans which may be secured in whole or in part by its own stock, or obtain the substitution of other adequate security for each such loan.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$111,628 and net depreciation of \$5,213 in investment securities, all as shown in the

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"report of examination of such bank as of August 8, 1936, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously, together with a letter to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Solvay Bank', Solvay, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York for his information.

"The papers submitted with the bank's application included copies of certain documents executed in January of 1934, 1935 and 1936, authorizing the decrease in the number of its directors from fifteen to eleven, the present number. In this connection, however, the bank's organization certificate, which was approved by and recorded in the office of the Superintendent of Banks in March, 1917, provides that 'the number of the directors shall be eleven.' It thus appears that, between March, 1917, and January, 1934, the number of the bank's directorate was increased from eleven to fifteen, and, if so, it will be appreciated if you will obtain and forward to the Board properly certified copies of such documents executed in connection with such increase as your counsel may consider necessary to complete the Board's records."

Letter to the board of directors of the "United Home Bank & Trust Co.", Mason City, Iowa, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "7. Such bank shall make adequate provision for depreciation in its furniture and fixtures."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

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"The Board of Governors of the Federal Reserve System approves the application of the 'United Home Bank & Trust Co.', Mason City, Iowa, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banking for the State of Iowa for his information.

"The condition recommended by your committee requiring the bank to refer to the Reserve Bank for consideration any proposed investment in a bank building or a site for a bank building has not been prescribed as, since the revision of the standard conditions of membership, it has not been the practice of the Board to prescribe such a condition except in special cases where circumstances indicated the desirability of so doing. It was understood from Mr. Young that such circumstances did not exist in this case and that the elimination of the condition will be satisfactory to your bank.

"It has been noted from the report of examination that Mr. Clark, Chairman of the Board, who has been engaged in the mortgage loan business through E. W. Clark and Co., Inc., is expected to devote his entire time to the bank and to bring his mortgage business into the bank. It is assumed in this connection that the bank is familiar with standard condition of membership numbered 3 pertaining to the sale of mortgage loans."

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

"This refers to your letter dated October 20, 1936, regarding the question whether the apparent balance carried by a member bank with a nonmember bank or only the actually collected and available balance shall be considered in determining the amount on deposit with the nonmember bank under the provision of the eighth paragraph of section 19 of the Federal Reserve Act to the effect that no member bank shall keep on deposit with any nonmember bank a sum in excess of 10 per cent of its own paid-up capital and surplus.

"You stated that in response to an inquiry you advised a State member bank that the apparent balance including items which have been sent for collection but which have not yet been actually collected should be considered as the amount on deposit within the meaning of the above-mentioned limitation. You stated that your advice was based upon the ruling published at page 428 of the Federal Reserve Bulletin for 1923, which you noticed was

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"based in part upon the confusion and conflict in the decisions regarding the question whether a collecting bank was an agent of the forwarding bank. You further stated that, since your Counsel has advised you that the trend of recent decisions and legislation has been distinctly in favor of the proposition that a bank accepting a check as agent for collection under an agreement by which the proceeds are not available for withdrawal is regarded not as a debtor to its depositor but as an agent until the collection is complete and the proceeds made available for withdrawal, it has occurred to you that the Board of Governors might consider that the ruling in the 1923 Bulletin was no longer applicable and, therefore, you asked to be advised whether this was the case.

"It appears that the ruling published in the Federal Reserve Bulletin for 1923 was based only in part upon the conflict in the decisions as to whether a collecting bank was an agent of the forwarding bank and was based primarily upon the view that the construction adopted of the words 'on deposit' in the eighth paragraph of section 19 of the Federal Reserve Act would most effectively carry out the apparent purpose of Congress to minimize the risk incurred by a member bank in maintaining a balance with a nonmember bank. After reviewing this matter, the Board is of the opinion that it should make no change in the ruling published in the 1923 Federal Reserve Bulletin and that such ruling is applicable to the case discussed in your letter."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Before the receipt of your letter of October 23rd in regard to your intention to visit Washington Mr. Broderick had made other arrangements which necessitate his absence at that time and he suggested that you might defer your visit until Tuesday, November 10th, when he expects to be in Washington. This would give you an opportunity to meet with the Board on that date to discuss any matter of general interest to the Board.

"Please let me know as soon as possible what your arrangements will be."

Approved unanimously.

Memorandum dated October 24, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that an additional amount of

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\$2,200 for equipment be authorized for the budget of the Division of Research and Statistics for 1936.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. Lewis
Chairman.