

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 4, 1936, at 10:30 a.m.

PRESENT: Mr. Eccles, 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. Paulger, Chief of the Division of
Examinations
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Parry, Chief of the Division of Security
Loans
Mr. Wingfield, Assistant General Counsel
Mr. Baumann, Assistant Counsel

Mr. Parry stated that on December 1, 1936, Mr. Charles R. Gay, President of the New York Stock Exchange, had called him on the telephone and had inquired whether Mr. Parry would be in New York in the near future and, if not, whether it would be agreeable if representatives of the Exchange came to Washington for a discussion of the proposed amendment to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers and Members of National Securities Exchanges, which was sent to the Federal reserve banks on November 18, 1936, for their comments and the comments of securities exchanges. Mr. Gay stated, Mr. Parry said, that the comments of the New York Stock Exchange on the proposed amendment had been formulated and were being submitted to the Federal Reserve Bank of New York,

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and that he (Mr. Parry) had replied that he would review the comments immediately upon receipt and communicate further with Mr. Gay with regard to the possibility of arranging a conference for their discussion. Mr. Parry added that the comments of the Exchange had been received from the Federal Reserve Bank of New York this morning and that, in view of all the circumstances, he felt that he should get in touch with Vice President Rounds of the Federal Reserve Bank of New York, and suggest that he arrange a meeting at the bank with representatives of the New York Stock Exchange at which Mr. Parry would be invited to be present.

Chairman Eccles raised the question as to what the position of the Board would be in the event the New York Stock Exchange should request an opportunity to discuss the proposed amendment with the Board and it was the consensus of the members present that if such a request were made it should be granted with the understanding that such members of the Board as are available in Washington would attend the meeting.

At the conclusion of the discussion it was understood that Mr. Parry would attend the suggested meeting with the representatives of the New York Stock Exchange at the Federal Reserve Bank of New York and, that in the event the New York Stock Exchange or any other securities exchange should request an opportunity to discuss the proposed amendment with members of the Board, such an opportunity would be granted.

At this point Mr. Cagle, Assistant Chief of the Division of Examinations, joined the meeting.

There was presented a letter dated December 1, 1936, from President Fleming of the Federal Reserve Bank of Cleveland, stating that during December the bank would retire four of its old employees who had

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been in the service of the bank nearly twenty years; that it had occurred to the bank that it would like to present them with a token of its regard and esteem; and that it was suggested that the Board give consideration to a uniform policy whereby the Federal reserve banks would be authorized to expend up to \$100 for each employee retired from service for something which he could retain as a remembrance of his association with the bank and its personnel.

Mr. Smead reviewed briefly the attitude of the Board in the past with respect to expenditures of the kind suggested by the Federal reserve banks and expressed the opinion that it was difficult to justify such expenditures by the Federal reserve banks as such, particularly in view of the fact that gifts of the character referred to are personal in nature and would lose their significance if given by the bank as a matter of uniform policy.

Various suggestions were made as to a policy that might be adopted in this connection and it was agreed that the matter should be placed on the program for consideration at the next Presidents' Conference.

Mr. Broderick reported briefly on his recent visit to the Baltimore and Charlotte Branches of the Federal Reserve Bank of Richmond and the Jacksonville Branch and Savannah Agency of the Federal Reserve Bank of Atlanta. He stated that during his trip various bankers had suggested that subsection 1(f) of Regulation Q, Payment of Interest on Deposits, which would prohibit the absorption by member banks directly or indirectly of exchange and collection charges, should be put into effect immediately, and he stated that, if the matter should come up during his absence

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during the next two weeks, he wished to be recorded as being in favor of making the subsection effective at the earliest possible date.

Mr. Broderick then raised the question as to what the policy of the Board would be with respect to the compensation of chairmen and Federal reserve agents at the Federal reserve banks beginning January 1, 1937, and pointed out in this connection that the chairmen and Federal reserve agents at most of the Federal reserve banks are serving on an honorarium basis while Messrs. W. B. Geery and J. J. Thomas, Federal Reserve Agents at the Federal Reserve Banks of Minneapolis and Kansas City, were appointed for the current year each with salary at the rate of \$20,000 per annum. He suggested that it would be desirable to advise Messrs. Geery and Thomas as to what action the Board expects to take as to their continuance as chairmen.

There was a discussion of the policy to be adopted by the Board in this connection and, upon motion by Mr. Broderick, which was unanimously approved, the Chairman was authorized to advise Messrs. Geery and Thomas that the Board was giving consideration to the policy to be followed in connection with the appointment and compensation of chairmen and Federal reserve agents at the Federal reserve banks beginning January 1, 1937, and that, while it had not reached a final decision in the matter, it was considering the placing of all such appointments on an honorarium basis.

For the information of the other members of the Board, Mr. McKee outlined the objections offered by the persons whom he had contacted to various provisions of the standard form of agreement required to be executed by a holding company affiliate as a condition precedent to the issuance of a general voting permit, together with his recommendations

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with respect to the action to be taken by the Board in the premises.

There was a discussion of the matter in the light of the circumstances surrounding the approval by the Board in December, 1935, of the standard form of agreement and the changes in the situation which have occurred since that time. It was pointed out that, under the regulation of the Internal Revenue Bureau, holding company affiliates can obtain a credit for income tax purposes for readily marketable assets acquired pursuant to the provisions of section 5144 of the Revised Statutes only in the event they hold general voting permits at the end of the taxable year; that it is in the public interest for holding company affiliates to acquire such assets; and that if the standard form of agreement could be amended in such a manner as would facilitate the execution of the agreement by the remaining holding company affiliates to which voting permits have not yet been issued, without affecting adversely the power of the Board effectively to supervise such affiliates, such an amendment would be a desirable step.

Mr. McKee stated that, while his recommendations with respect to the amendment of the agreement would not meet all of the objections of the holding company affiliates, he felt the suggested changes would eliminate certain features of the agreement which are undesirable from the Board's viewpoint and, without affecting materially the power of the Board to supervise the affiliates, would result in the execution of the agreement by at least some of the holding company affiliates that do not now hold general voting permits.

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At the conclusion of the discussion, Mr. McKee moved that the present standard form of agreement be amended by changing provision numbered 2 to apply to all subsidiary banking institutions instead of State banking institutions as at present; that provisions numbered 4 and 5 be eliminated from the agreement; and that the Federal reserve banks be authorized to advise all holding company affiliates in their respective districts which have executed the standard form of agreement in its present form that provisions 4 and 5 in such agreements will be canceled when the holding company affiliate has furnished satisfactory evidence that it has complied with the requirements of provision numbered 2 as amended.

Carried unanimously.

The amended agreement read as follows:

"In consideration of the granting by the Board of Governors of the Federal Reserve System, under authority of section 5144 of the Revised Statutes of the United States and pursuant to an application heretofore filed with the Board of Governors of the Federal Reserve System by the undersigned, of a general voting permit entitling the undersigned to vote the stock which it owns or controls of the member bank or banks specified in such permit at all meetings of shareholders of such bank or banks, the undersigned hereby represents, undertakes and agrees as follows:

1. That, as soon as practicable and, in any event, within two years from the date such voting permit is granted, the undersigned will charge off or otherwise eliminate from its assets,

- (a) the part of the carrying value on its books of its investments in stocks of subsidiary and/or affiliated organizations which is in excess of the adjusted value of such stocks, after effect shall have been given to the de-

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"duction of all estimated losses of such subsidiary and/or affiliated organizations, all depreciation in stocks and defaulted securities, and all depreciation in all other securities not of the four highest grades, as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities, as shown by the latest available reports of examination of such organizations by the appropriate supervisory authorities and/or as shown by the latest appraisal of their assets by other examiners, auditors or appraisers satisfactory to the designated representative of the Board of Governors of the Federal Reserve System in the district in which the undersigned is located,

- (b) (i) all depreciation in its other stocks and in its defaulted securities, (ii) all depreciation in its securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities, (iii) all losses in all its other assets, - all as shown by the latest available reports of examination by the appropriate supervisory authorities and/or as shown by the latest appraisal of assets by other examiners, auditors or appraisers satisfactory to the designated representative of the Board of Governors of the Federal Reserve System in the district in which the undersigned is located,
- (c) all its other known losses;
2. That the undersigned will take such action within its power as may be necessary to cause each of its subsidiary banking institutions to charge off or otherwise eliminate from its assets as soon as practicable, and, in any event, within two years from the date such voting permit is granted, (a) all estimated losses in loans and discounts, (b) all depreciation in stocks and defaulted securities, (c) all depreciation in securities not of the four highest grades, as classified by

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- "a recognized investment service organization regularly engaged in the business of rating or grading securities, (d) all other losses, all such charge-offs or eliminations to be based upon the latest available reports of examination by the appropriate supervisory authorities and/or as shown by the latest appraisal of assets by other examiners, auditors or appraisers satisfactory to the designated representative of the Board of Governors of the Federal Reserve System in the district in which such institution is located;
3. That the undersigned will take such action within its power as may be necessary to cause each of its subsidiary banking institutions to maintain a sound financial condition and to cause the net capital and surplus funds of each such subsidiary banking institution to be adequate in relation to the character and condition of its assets and to the deposit liabilities and other corporate responsibilities of such subsidiary banking institution;
 4. That the undersigned will take all necessary action within its power to prevent any of its subsidiary banks and any other banks with which the undersigned or any of its subsidiaries is affiliated from hereafter making, any loans or extensions of credit to, or purchases of securities under repurchase agreements from, the undersigned or any of its subsidiaries or any other organizations with which the undersigned or any of its subsidiaries is affiliated, or any investments in, or advances against, securities of the undersigned or any of its subsidiaries or any other organizations with which the undersigned or any of its subsidiaries is affiliated, except within the same limitations and subject to the same conditions and provisions as are applicable under section 23A of the Federal Reserve Act to such transactions involving member banks and their affiliates;
 5. That the management of the undersigned will be, and the undersigned will take such action within its power as may be necessary to cause the management of each of its subsidiaries to be, conducted under sound policies governing its financial and other operations, including statements issued relating thereto; that the undersigned will maintain a sound financial condition; that its net capital and surplus funds shall be adequate in relation to the character and condition of its assets

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"and to its liabilities and other corporate responsibilities; and that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments.

"The foregoing representations, undertakings and agreements are subject to the following understandings:

"(A) In determining the amount of depreciation in securities owned by the undersigned or by any of its subsidiary or affiliated organizations, appreciation in securities owned by any such organization may be off-set against depreciation in securities owned by the same organization, provided that such appreciation shall first be off-set against depreciation in securities of the four highest grades owned by such organization, as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities.

"(B) Whenever, under the terms of this agreement, any amounts are required to be charged off or otherwise eliminated, this agreement shall be deemed to have been complied with to the extent of any valuation reserve that may be set up for the securities or other assets involved; provided that, in all reports and published statements of condition, the amount of such reserves be deducted from the respective assets against which they are allocated.

"(C) Whenever the stock of any of its subsidiary or affiliated organizations is carried on the books of the undersigned at less than its adjusted value, as determined in accordance with the foregoing clause numbered 1, nothing in this agreement shall prevent the undersigned from increasing the amount at which such stock is carried on its books to an amount not exceeding such adjusted value.

"(D) In case any dispute arises with any designated representative of the Board of Governors of the Federal Reserve System as to compliance with the terms of this agreement and such dispute involves disagreement with respect to any appraisal or valuation by any examiner, auditor or appraiser, or any recommendation or suggestion of such designated representative, the undersigned shall have the right to appeal to the Board for review and final determination."

In connection with the above action it was understood that advice of the Board's action would be telegraphed to the Federal reserve banks as promptly as possible, and that the Federal reserve banks would be requested, in the event they receive requests

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for the issuance of general voting permits between now and December 31, to forward the requests to the Board immediately to be followed by the bank's recommendation as to the action to be taken as promptly as possible.

Chairman Eccles stated that members of the Board had been furnished recently with copies of a memorandum prepared at his suggestion to provide the member with a brief review of the situation with respect to representation of the Federal Reserve System on the directorate of the Bank for International Settlements and that he would appreciate it if the members of the Board would inform themselves as to the situation, with the understanding that the matter would be taken up for consideration following the return of Messrs. Broderick and Davis to Washington before the end of the year.

There was then presented a draft of a letter to Vice President Gidney of the Federal Reserve Bank of New York reading as follows:

"Reference is made to your letter of November 13, 1936, and previous correspondence, regarding the proposal of 'The Harbor State Bank', New York, New York, to increase its capital from \$200,000 to \$600,000, to convert into a trust company to be known as the Pan American Trust Company, to acquire the business of the New York Agency of the Banco Nacional de Mexico, to locate the head office of the trust company in the quarters now occupied by such Agency, and to retain the present location of The Harbor State Bank as a branch of the trust company.

"The Board has reviewed the information submitted and, in accordance with your recommendation, interposes no objection to the proposed transactions, provided that appropriate approval thereto is given by the proper State supervisory authorities and that your counsel is satisfied that the transactions are legally effective. The Board also approves the exercise by the proposed trust company of the fiduciary powers authorized by its charter and the laws of the State of New York, such approval to become effective if and when The Harbor State

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"Bank is converted into a trust company, and subject to the following conditions:

1. Such bank shall not invest funds held by it as fiduciary in obligations of or property acquired from the bank or its directors, officers, employees, members of their families, or their interests, or in obligations of or property acquired from affiliates of the bank.
2. Such bank shall not invest funds held by the bank as fiduciary in participations in pools of mortgage bonds or other securities, and the securities and investments of each trust shall be kept separate from those of all other trusts and separate also from the properties of the bank itself; provided, however, that the Board of Governors of the Federal Reserve System will not object to the collective investment of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary, and if such collective investment is not prohibited by State law or the instrument creating the trust.
3. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise The Harbor State Bank of the Board's action, and to obtain and forward to the Board a certified copy of an appropriate resolution of the board of directors of the trust company accepting these conditions. As you were advised in the Board's letter of November 24, 1936, you are authorized on behalf of the Board, and without reference of the matter to the Board, to waive compliance by the trust company with the requirements of the condition numbered 3 under the same terms and conditions as are contained in the Board's letter of July 17, 1935, to Mr. Case.

"Please forward to the Board also a copy of any agreement which is entered into by the member bank covering its acquisition of the business of the New York Agency of the Banco Nacional

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"de Mexico and of any amendment which may be made to the charter of the bank in connection with this transaction and the other transactions referred to above, together with a copy of the approval given by the State authorities to any of such transactions."

The letter had been circulated among the members of the Board for their information prior to consideration at a meeting of the Board. It was pointed out that the Harbor State Bank is controlled by the Banco Nacional de Mexico and there was a discussion of the question whether the fact that it is now controlled by foreign ownership of a majority of its stock would necessitate the Board's taking a position different from that set forth in the above letter.

At the conclusion of the discussion Mr. Broderick moved that the letter be approved with the understanding that it would not be sent until approved by Mr. Ransom.

Carried unanimously

Subsequently the Board's secretary reported that he had talked to Mr. Ransom about the matter and that Mr. Ransom concurred in the approval of the letter.

It was then stated that the President had issued an order directing that all Federal agencies be closed at 1:00 p.m. on December 24, Christmas Eve, and remain closed until Monday, December 28, 1936, and the question was raised as to what action should be taken by the Board with respect to its own employees.

Mr. Szymczak moved that the Board's offices be closed on December 26 and that all employees who can be spared be excused from duty at 1:00 p.m. on December 24.

Carried unanimously.

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Chairman Eccles referred again to the memorandum discussed at the meeting on November 25, 1936, which had been prepared by Mr. Vest, Assistant General Counsel, under date of November 18, 1936, with respect to a proposal that an amendment be made to the Social Security Act for the purpose of bringing all banks within the operation of that act.

Chairman Eccles said that the proposed amendment to the law undoubtedly would apply to Federal reserve banks and that in view of the possible effect upon the Retirement System of the Federal Reserve Banks he would suggest that information be compiled as to the contributions that would be required by the Act to be paid by the Federal reserve banks on the basis of their current payrolls as well as the total amount of payments which would be required of employees of the banks. Chairman Eccles added that when such information is available the Board should give prompt consideration to the question whether it will recommend that the amendment to the law be so framed as to continue the exemption of the Federal reserve banks from the application of the statute.

Mr. Smead was requested to compile, for submission to the Board as promptly as possible, the information suggested by Chairman Eccles.

At this point Messrs. Thurston, Wyatt, Paulger, Smead, Parry, Wingfield, Baumann and Cagle 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

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Federal Reserve System held on December 3, 1936, were approved unanimously.

Telegrams to Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, and Mr. Martin, Chairman of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the New York bank on December 3, 1936, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated November 30, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment of Mr. Malcolm H. Bryan as a senior economist in the Division, with salary at the rate of \$5,600 per annum, for the period from the date upon which he enters upon the performance of his duties through September, 1937. The memorandum also recommended that, since it was intended to consider Mr. Bryan for a permanent appointment at the expiration of his temporary appointment, if his work proves satisfactory and he so desires, Mr. Bryan be permitted to enter the retirement system at this time upon passing the required physical examination.

Approved unanimously.

Letter to "The Red Wing National Bank and Trust Company", Red Wing, Minnesota, reading as follows:

"This refers to the resolution adopted on August 8,

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"1936, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise the trust powers which have heretofore been granted to it by the Federal Reserve Board, now known as the Board of Governors of the Federal Reserve System.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers covered by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously, together with
a letter to Mr. J. F. T. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Mr. Gough's letter of November 16, 1936, inclosing a special report received by your office from National Bank Examiner D. D. McLaren under date of October 31, 1936, in which it is indicated that The Red Wing National Bank and Trust Company, Red Wing, Minnesota, has been discharged or otherwise properly relieved, in accordance with law of all of its duties as fiduciary.

"It is noted that, while the words 'and Trust Company' have not been eliminated from the title of the bank in question in accordance with the requirement contained in section 16(b) of the Board's Regulation F, Mr. Gough recommends in his letter that this requirement be waived by the

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"Board in the present case in view of the fact that the bank is in process of liquidation.

"In the circumstances and for the reasons stated in Mr. Gough's letter, the Board will not require the elimination of the words 'and Trust Company' from the title of The Red Wing National Bank and Trust Company as a prerequisite to the issuance of a certificate to that bank terminating its right to exercise trust powers.

"Accordingly, the Board has today issued to The Red Wing National Bank and Trust Company a certificate to the effect that that bank is no longer authorized to exercise trust powers; and a copy of this certificate, together with a copy of the Board's letter to the bank, is inclosed herewith."

In connection with the above matter, the following letter to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, was also approved unanimously:

"This refers further to your letter of August 18, 1936, and the Board's letter of September 11, 1936, with respect to the desire of The Red Wing National Bank and Trust Company, Red Wing, Minnesota, to surrender its right to exercise trust powers.

"It is understood from advice received from the office of the Comptroller of the Currency that The Red Wing National Bank and Trust Company has been discharged or otherwise properly relieved, in accordance with the law, of all of its duties as fiduciary. However, it is understood also that the words 'and Trust Company' have not been eliminated from the title of that bank. As you know, the Board has adopted the policy of not issuing a certificate to a national bank terminating its right to exercise trust powers until these words have been eliminated from its title; and this requirement is included in section 16(b) of the Board's Regulation F.

"It has been recommended by the office of the Comptroller of the Currency that this requirement be waived by the Board in the present case in view of the fact that the bank in question is in the process of liquidation and is, therefore, restricted to the exercise of only such powers as are essential to the winding up of its affairs. The office of the Comptroller has advised that any reorganization of the bank which might result in a resumption of operations would be subject to the approval of that office and that no such approval would be given to a national bank, the title of which contains the words 'and Trust Company' when, in fact, it has no permit to exercise trust powers. The Comptroller's office has pointed out also

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"that any change in the title of a national bank, pursuant to the provisions of section 30 of title 12 of the United States Code would necessitate action by the stockholders and that such action would not only result in delay in completing the ultimate liquidation of the bank but would also be likely to produce some inconvenience and misunderstanding.

"In the circumstances, the Board has waived the requirement of section 16(b) of its Regulation F that the words 'and Trust Company' be eliminated from the title of The Red Wing National Bank and Trust Company. Accordingly, the Board has today issued to The Red Wing National Bank and Trust Company a certificate to the effect that that bank is no longer authorized to exercise trust powers; and a copy of this certificate, together with a copy of the Board's letter to the bank, is inclosed herewith."

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

"Reference is made to your letter of November 16, 1936, transmitting with the favorable recommendation of your Executive Committee the request of the 'Dormont Savings & Trust Company', Dormont, Pittsburgh, Pennsylvania, for permission under the provisions of membership condition numbered 8, to invest in banking premises through the acquisition of the assets of the East Liberty Realty Company, which now holds title to the building occupied by the bank. It appears that the approval of the Board is also required under the provisions of section 24A of the Federal Reserve Act, inasmuch as the plan contemplates that the investment of the bank in bank premises will be in excess of \$125,000, the amount of the bank's capital stock.

"It has been noted that the stock of the East Liberty Realty Company, all of which is owned by the bank, is carried by the bank at \$50,000, that the bank proposes to pay the mortgage of \$125,000 outstanding against the bank building and to set the building up on its books at an amount not to exceed \$165,000, and to liquidate the East Liberty Realty Company.

"In view of all the circumstances and the favorable recommendation of your Executive Committee, the Board grants permission to the Dormont Savings & Trust Company to acquire the bank building and to set it up on its books at an amount not to exceed \$165,000, in accordance with the plan submitted, provided the transaction is approved by the appropriate State

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"authorities. In this connection, it is understood that you have discussed the matter with the State authorities and that they feel the plan warrants approval inasmuch as it is not actually a new undertaking but a restatement of an existing situation.

"Under the provisions of membership condition numbered 17, the bank is required to cause the East Liberty Realty Company to make adequate provision for depreciation in banking premises in annual amounts not less than two per cent of the carrying value thereof, and the Board's approval of the transaction is given with the understanding that, as indicated by the bank, it will continue, after the acquisition of the property, to make provision for such depreciation.

"In view of the large investment in banking premises and other real estate and the gradual but substantial increase in deposits, it is understood that you intend to urge the bank to obtain additional capital. Please keep the Board advised of the progress made in this connection."

Approved unanimously.

Letter to Mr. A. R. Olson, Vice President, The First National Bank of Beresford, Beresford, South Dakota, reading as follows:

"This refers to your letter of November 17, 1936, addressed to the Federal Deposit Insurance Corporation regarding the question whether your bank may pay a time certificate of deposit before maturity. In view of the fact that your letter appears to involve a question arising under Regulation Q of the Board of Governors of the Federal Reserve System, such letter has been referred by the Federal Deposit Insurance Corporation to the Board of Governors for reply.

"It appears from your letter that your bank recently issued to the guardian of a minor a time certificate of deposit in the amount of \$6,350 payable two years after date. You also state that a new guardian has since been appointed for the minor and that the new guardian threatens suit against your bank unless the certificate for \$6,350 is canceled, the amount of \$1,350 is paid to him in cash, and a new certificate for \$5,000 is issued payable one year after date.

"The thirteenth paragraph of section 19 of the Federal Reserve Act provides that no member bank shall pay any time

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"deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Board of Governors of the Federal Reserve System. Pursuant to this provision of the law, section 4(d) of Regulation Q provides that, in an emergency where it is necessary to prevent great hardship to the depositor, a member bank may pay before maturity a time deposit or the portion thereof necessary to meet such emergency provided the depositor shall sign an application describing fully the circumstances constituting the emergency and that the application shall be approved by an officer of the bank who shall certify that to the best of his knowledge and belief the statements in the application are true.

"It does not clearly appear from your letter whether hardship would be caused to the minor in this case by failure to pay the certificate of deposit before maturity. However, in the circumstances, the Board of Governors will not object to the payment of such certificate of deposit prior to its maturity, provided the bank obtains an application from the depositor and otherwise complies with the provisions of section 4(d) of Regulation Q.

"If you should have any further inquiries regarding this matter or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of Minneapolis, which will be glad to consider your inquiries."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...
Chairman.