

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 22, 1936, at 3:00 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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 December 21, 1936, were approved unanimously.

Telegrams to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, and Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated December 21, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, owing to approaching confinement, Mrs. Elizabeth P. Tappy, a clerk in the Division, be granted thirty days additional sick leave

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with pay, and that at the expiration of this period of sick leave, Mrs. Tappy be granted leave without pay for such further period as may be necessary for her to remain away from the office, but not to exceed 115 days.

Approved unanimously.

Letter to the board of directors of the "Central State Bank", Muscatine, Iowa, stating that, subject to the conditions of membership numbered 1 to 6 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 Chicago:

- "7. Such bank shall make adequate provision for depreciation in its banking house.
- "8. Such bank shall establish and thereafter maintain during the life of the agreements with the First Trust & Savings Bank and the Hershey State Bank, both of Muscatine, Iowa, a 'trustees' profit account' which shall be separate and apart from the undivided profits account of the bank and which shall clearly reflect at all times the net amount of earnings due to the liquidating agents for the benefit of the holders of the trust certificates of the First Trust & Savings Bank and the Hershey State Bank, and such 'trustees' profit account' shall not be included in the undivided profits account of the bank in any of its reports of condition or published statements."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Central State Bank', Muscatine, Iowa, for membership in the Federal Reserve System,

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"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 special condition of membership numbered 2 as recommended by your Special Committee is similar to the condition of membership prescribed in the case of the I-C Bank and Trust Company, Chicago, and other banks in Illinois where, in the event of liquidation, the waiving depositors must be paid in full before any distribution of assets can be made to the stockholders as such. It is understood, however, that under the agreements with the Central State Bank of Muscatine, Iowa, the liquidating agents for the benefit of the holders of the trust certificates of the First Trust & Savings Bank and the Hershey State Bank, both of Muscatine, Iowa, do not have a claim on the assets of the bank but have merely a claim on the net earnings of the bank up to the amount of \$125,000. Accordingly, the Board has prescribed condition of membership numbered 8 which is similar to conditions prescribed in the cases of certain Michigan banks which had executed agreements under which only net earnings of the banks accrue to the benefit of waiving depositors.

"On page 12-E of the report the examiner includes a schedule which shows that certain securities are carried by the bank in excess of their call prices. The aggregate excess carrying value is, however, relatively small. The regulation of the Comptroller of the Currency issued pursuant to Section 5136 of the Revised Statutes provides that the carrying value of an investment security shall at no intervening date be in excess of the amount at which the obligor may legally redeem such security. It is suggested, therefore, that you call this matter to the attention of the management with the request that prior to membership the necessary adjustments be made in the carrying value of such securities.

"In view of the fact that the examiner has reported that the estimated losses shown in the report of examination were charged off during the examination, the usual condition of membership regarding the elimination of estimated losses has not been prescribed."

Letter to "The Mechanicks National Bank of Concord", Concord, New Hampshire, reading as follows:

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"The Board of Governors of the Federal Reserve System has given consideration to your supplementary application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor and registrar of stocks and bonds, grants you authority to act, when not in contravention of State or local law, as assignee, receiver, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New Hampshire, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Telegram to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Retel December 16, 1936, regarding proposed reduction in common stock of First State Bank, LaCrosse, Washington, from \$60,000 to \$30,000. As you know, capital of bank, after reduction has been effected, will be below that required for organization of national bank in same place. However, First State Bank could withdraw from membership in System, effect such proposed reduction in capital, and, in view of its location in a place with population of less than 3,000 inhabitants, still have sufficient capital under applicable provisions of Federal Reserve Act for readmission to membership. Accordingly, in view of position taken in its letter of January 31, 1936 (X-9475), Board is of opinion that proposed transaction would not violate purposes of requirements of Federal Reserve Act. Board, therefore, on basis of facts submitted by you, will interpose no objection to proposed reduction, provided that, in your opinion, the reduction is warranted and that the transaction is consummated in accordance with State law."

Approved unanimously.

Letter to Mr. H. W. Courtney, Cashier, The First National

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Bank, Conawa, Oklahoma, reading as follows:

"This refers to your letter of December 2, 1936, regarding the payment by member banks of interest accruing after August 23, 1937, on certain demand deposits of public funds, and the payment by member banks of interest on demand deposits of Indian funds, Postal Savings funds, and other United States Government funds.

"The twelfth paragraph of section 19 of the Federal Reserve Act provides that no member bank shall pay interest on any deposit which is payable on demand and also provides that until the expiration of two years after the date of enactment of the Banking Act of 1935 the above prohibition shall not apply to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, if the payment of interest with respect to such deposit of public funds is required by State law.

"The Banking Act of 1935 was enacted on August 23, 1935, and, therefore, the two year period during which member banks may pay interest on demand deposits of public funds of States and subdivisions thereof expires on August 23, 1937. No member bank may pay any interest accruing after August 23, 1937, on any demand deposit of public funds regardless of whether or not the payment of interest on such funds is required by State law.

"You ask to be advised whether member banks may pay interest on demand deposits of Indian funds, Postal Savings funds, and other United States Government funds. Apparently your question has reference to whether interest may be paid on such funds after August 23, 1937. However, under the provisions of the twelfth paragraph of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, interest may not now be paid by member banks on demand deposits of funds deposited by the United States or by any public instrumentality, agency, or officer thereof. Accordingly, interest may not now be paid by member banks on demand deposits of Indian funds, Postal Savings funds, or other Government funds when any of such funds are deposited by the United States or by a public instrumentality, agency, or officer thereof, nor may interest be paid by member banks on demand deposits of such funds after August 23, 1937.

"As you are no doubt aware, interest may now be paid on funds of the kinds described above if they are placed in time deposits in member banks. The maximum rates of interest which may be paid on such time deposits are set

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"forth in the Supplement to Regulation Q, a copy of which is inclosed herewith. In this connection, it is understood that Postal Savings funds are not placed in demand deposits in banks, but are placed in time deposits, pursuant to the regulations of the Board of Trustees of the Postal Savings System on this subject. Under the existing Supplement to Regulation Q, the maximum rate of interest payable by member banks on Postal Savings funds deposited in time deposits is 2-1/2 per cent per annum. Interest may be paid on time deposits of Postal Savings funds at the rate prescribed in the Supplement to Regulation Q after August 23, 1937, as well as prior to that date.

"It is hoped that the above information will answer the questions which you have in mind. However, 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 Kansas City, which will be glad to give consideration to your inquiries."

Approved unanimously.

Letter to Mr. E. A. Walker, President, The Tradesmens National Bank, Oklahoma City, Oklahoma, reading as follows:

"This refers to your letter dated December 2, 1936, in response to the Board's letter of November 28, 1936, in which you present the question whether your bank may pay interest after August 23, 1937, on demand deposits of Indian funds.

"Your question indicates that you are of the opinion that member banks may now pay interest on demand deposits of Indian funds. However, under the provisions of the twelfth paragraph of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, interest may not now be paid by member banks on demand deposits of Indian funds when such funds are deposited by the United States or by a public instrumentality, agency, or officer thereof, nor may interest be paid by member banks on demand deposits of such funds after August 23, 1937.

"As stated in the Board's letter of November 28, 1936, the twelfth paragraph of section 19 of the Federal Reserve Act forbids the payment of interest on demand deposits and makes an exception for certain demand deposits of public funds until August 23, 1937, if the payment of interest on such funds is required by State law. However, the payment of interest in accordance with a requirement of

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"Federal law would not fall within such exception. Furthermore, the last sentence of the twelfth paragraph of section 19 of the Federal Reserve Act expressly repeals so much of existing law as requires the payment of interest with respect to any funds deposited by the United States or by any public instrumentality, agency, or officer thereof in so far as such law is inconsistent with the provisions of section 19 of the Federal Reserve Act, as amended.

"It is hoped that the above information will answer the questions which you have in mind. However, 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 Kansas City, which will be glad to give consideration to your inquiries."

Approved unanimously.

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

"This refers to your letter dated December 9, 1936, inclosing a copy of an order dated December 1, 1936, signed by the Commissioner of Banking and Insurance of Vermont regarding the maximum rate of interest payable on time and savings deposits by banks and trust companies in Vermont and also inclosing a copy of your letter of December 8, 1936, to all member banks in Vermont advising them of the effect of the Commissioner's order.

"Your letter of December 8, 1936, appears to involve the same issues as those involved in the Board's letter to you dated June 25, 1936, and your letter to all member banks in Vermont dated July 29, 1936. Accordingly, the Board approves your letter of December 8, 1936, to all member banks in Vermont."

Approved unanimously.

Letter to President Harrison of the Federal Reserve Bank of New York, reading as follows:

"This refers to Mr. Burgess's letter of October 13, 1936, in answer to the Board's letter to you dated September 16, 1936, regarding the question whether advance payments on United States Government bonds are deposits against which member banks and Federal Reserve banks are required

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"to carry reserves. In his letter of October 13, 1936, Mr. Burgess suggested that this subject be considered at a joint conference between representatives of the Treasury, the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of New York. However, it is understood that Mr. Burgess no longer desires a consideration of this subject at such a joint conference.

"It is understood that these advance payments on Government bonds are made by subscribers pursuant to instructions issued by the Secretary of the Treasury to the Federal Reserve Bank of New York under date of May 27, 1936, which are designed to provide for an equitable allotment and distribution of these bonds by requiring the subscribers to make a substantial initial payment at the time their subscriptions are entered. In cases where a bank enters subscriptions on behalf of its customers, the bank is required to certify that there has been paid to it by each such customer, 'not subject to withdrawal until after allotment and payment in full for securities allotted, the full amount required to accompany his application.' The question presented is whether these advance payments to banks by subscribers constitute deposits against which reserves are required to be carried.

"The Board has heretofore taken the position that all funds received by a bank in the course of its commercial or fiduciary business must be considered as deposits against which reserves are required to be carried, unless such funds are trust funds and are actually segregated from the other assets of the bank. This position was stated in a ruling published at page 572 of the Federal Reserve Bulletin for 1922.

"Since it appears that these advance payments on Government bonds do not constitute trust funds and are not actually segregated from the bank's other assets, it is the view of the Board of Governors that such advance payments constitute deposits against which member banks and Federal Reserve banks are required to carry reserves."

Approved unanimously.

Letter to Mr. M. J. Flohr, President, The First National Bank of Wallace, Wallace, Idaho, reading as follows:

"This refers to your letter of December 14, 1936, in which you state that Mr. James F. McCarthy, Vice President

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"and Director of your bank, has expressed an unwillingness to accept the position of honorary Vice President for the forthcoming year due to the requirements of section 22(g) of the Federal Reserve Act. You state that Mr. McCarthy is one of the leading citizens of Wallace, Idaho, and the belief is held that the reaction would be detrimental to the interests of the bank if he should refuse to accept the position of Vice President. You inquire as to the manner in which you may proceed with this problem.

"As perhaps you know, section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1935, approved August 23, 1935, authorized the Board of Governors of the Federal Reserve System to issue regulations and to define the term 'executive officer' for the purposes of such section. At the time of the consideration of Regulation O, the Board was aware of the fact that some banks had honorary or inactive officers who did not actively participate in the management of the bank; but it was the view of the Board that bank officials whose titles may cause the public to consider them executive officers should comply with the rules governing executive officers. Moreover, a Vice President of a member bank, although actually inactive in the management of the bank, nevertheless is in a position to exercise actively the duties of his office should occasion arise. Also, Congress did not make a distinction in section 22(g) between active and inactive officers, and the Board, in prescribing a general rule applicable to all member banks alike, did not feel that it should make such a distinction when defining the term 'executive officer' pursuant to the authority vested in the Board by the law. Accordingly, every Vice President of a member bank has been included in the definition contained in subsection (b) of section 1 of the Board's Regulation O, whether or not he is active. While, therefore, Mr. McCarthy as Vice President of your bank must be considered in the circumstances stated in your letter as an executive officer within the provisions of section 22(g) of the Federal Reserve Act, it is hoped that you will understand the Board's position in attempting to carry out the purposes of the law and to deal fairly with all member banks in accordance with the statute.

"However, your attention is invited to the fact that Regulation O provides that the term 'executive officer' does not include a director who is not also an executive officer within the other provisions of the definition and, accordingly, if Mr. McCarthy should feel it necessary to

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"retire as Vice President he would not be considered an executive officer merely because he retains his position as director.

"For your information in this connection, there is inclosed a copy of the Board's Regulation O."

Approved unanimously.

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

"This refers to your letter of December 10, 1936, with regard to a possible violation of the provisions of section 5209 of the Revised Statutes of the United States by Mr. Henry J. Henser, a former employee of the trust department of the Irving Trust Company, New York, New York, who, it is stated, misappropriated \$31.36 from the petty cash fund of such company. You state that, in view of the small amount involved, you do not deem it necessary, unless otherwise instructed by the Board, to report the matter to the local United States Attorney.

"As you know, it is the Board's usual practice to report all apparent violations of the criminal provisions of the Federal banking laws to the Attorney General of the United States. Exceptions are occasionally made when the amount of the alleged defalcation or embezzlement is very small but the Board nevertheless feels that the amount in this case is substantial enough to warrant reporting the matter to the Department of Justice even though the Attorney General may decide, in view of the circumstances in this case, not to prosecute. It will be appreciated, therefore, if you will report the matter to the local United States Attorney and forward three copies of your report to the Board for transmission to the Attorney General."

Approved unanimously.

Thereupon the meeting adjourned.

Charles Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.