A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, February 18, 1937, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
       Mr. Ransom, Vice Chairman
       Mr. Szymczak
       Mr. McKee
       Mr. Davis
       Mr. Morrill, Secretary
       Mr. Carpenter, Assistant Secretary
       Mr. Clayton, Assistant to the Chairman

It was suggested that as Chairman Eccles would be away from Washington on February 19 and 20, 1937, and Mr. Ransom would be absent for approximately two weeks beginning tomorrow, the Board should elect a Chairman pro tem to serve during the latter period.

Accordingly, upon motion by Mr. McKee, Mr. Szymczak was elected Chairman pro tem for the period of the contemplated absence of Mr. Ransom to serve during any absence of the Chairman in that period.

Reference was made to a memorandum dated February 3, 1937, from Mr. Morrill submitting the joint recommendation of Messrs. Smead and Morrill that Article IX of the by-laws of the Board be amended to read as follows. Copies of Mr. Morrill's memorandum were furnished to the members of the Board on February 6:

"Article IX

Interdistrict Settlement Fund
Federal Reserve Agents' Fund

"All funds deposited by or for account of the respective Federal reserve agents in the Federal Reserve Agents' Fund of the Board of Governors of the Federal Reserve System and all funds deposited by or for account of the respective Federal reserve banks in the Interdistrict Settlement
"Fund of the Board of Governors of the Federal Reserve System shall be held on deposit with the Treasurer of the United States and shall be subject to withdrawal only by orders or checks signed and countersigned on behalf of the Board of Governors of the Federal Reserve System by the Chief or an Assistant Chief of the Division of Bank Operations, or, in their absence, by the Secretary or an Assistant Secretary of the Board. Such orders or checks may also be signed or countersigned by any member of the Board."

Upon motion by Mr. Ransom the proposed amendment was approved unanimously.

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 February 17, 1937, were approved unanimously.

Telegrams to Mr. Helm, Vice President of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, 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.

Letter to Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your letter of February 12, the Board approves the reappointment of Messrs. A. R. Forsyth, A. M. Lockett, I. C. Milner, John E. Sanford, and George Winship as members of the Industrial Advisory Committee for the Sixth Federal Reserve District to serve for terms of one year each beginning on March 1, 1937."

Approved unanimously.
Letter to Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Referring to your letter of February 11, the Board approves the reappointment of Messrs. Clarence Ousley, T. M. Cullum, Lewis R. Ferguson, Will B. Marsh, and Charles R. Moore as members of the Industrial Advisory Committee for the Eleventh Federal Reserve District to serve for terms of one year each beginning on March 1, 1937."

Approved unanimously.

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

"Receipt is acknowledged of a copy of your letter of February 2, 1937, to the Detroit Agency, Reconstruction Finance Corporation, wherein you advise that no objection would be interposed to the retirement of $15,000 of Class A preferred stock by the 'Bank of Lansing', Lansing, Michigan.

"As you know, the Bank of Lansing is subject to a condition which provides that its capital shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System, and in its letters X-9048 and X-9799 the Board has authorized the respective Reserve banks to approve on the Board's behalf reductions in capital notes, debentures or preferred stock issued by State member banks 'where after such reduction is accomplished the member bank will have an unimpaired capital and surplus of not less than one-tenth of the amount of its deposit liabilities'. It will be noted that the letter does not refer to net sound capital but to capital and surplus alone, exclusive of undivided profits or other capital accounts. Since it appears that the capital and surplus of the Bank of Lansing is less than one-tenth of its deposit liabilities, the application for retirement of preferred stock should have been submitted to the Board for its consideration.

"The analysis of a report of examination made by the State Banking Department as of November 9, 1936, indicates that the net sound capital structure of the bank was equal to approximately 11.5 per cent of deposits of $4,060,500. On the same basis it would appear that after the proposed retirement of $15,000 of preferred stock the net sound capital structure of the bank would still be in excess of 10 per cent of its deposit liabilities."
"In view of the circumstances, the Board confirms your action in approving the retirement by the bank of $15,000 preferred stock."

Approved unanimously.

Letter to Mr. McKinney, President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of February 3, 1937, submitting to the Board the application of the 'Guaranty Bond State Bank', Tomball, Texas, for permission to retire $5,000 of its $10,000 of outstanding capital debentures owned by the Reconstruction Finance Corporation.

"It has been noted that, after this proposed retirement of debentures has been effected, the bank will have a capital of $30,000, which is less than the amount which would be required for the organization of a national bank in the same place. However, in view of the position taken in its letter of January 31, 1936 (X-9475), the Board, in the light of all the circumstances involved and in accordance with your recommendation, will interpose no objection to the proposed retirement, provided, of course, that the transaction has the approval of the appropriate State authorities."

Approved unanimously, together with a letter to Mr. James F. Herson, Administrative Assistant, Reconstruction Finance Corporation, reading as follows:

"This is to advise that the Board of Governors of the Federal Reserve System interposes no objection to the proposed retirement by the 'Guaranty Bond State Bank', Tomball, Texas, of $5,000 of its $10,000 of capital debentures now outstanding and owned by the Reconstruction Finance Corporation, provided that the transaction has the approval of the appropriate State authorities."

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"There is inclosed herewith a copy of a letter dated January 25, 1937, addressed to the Comptroller of the Currency by Mr. H. E. Noyes, Vice President, Merchandise Bank
"and Trust Company, Chicago, Illinois. This letter presents the question whether, under the provisions of section 11(m) of the Federal Reserve Act, a member bank may lend to a customer an amount equal to 10 per cent of its capital and surplus on the security of stock or bond collateral and then lend an additional sum to another individual who would use other securities of the first customer as collateral for the purpose.

"It does not appear to be possible to give a definite answer to this question which would be uniformly applicable to every case of this kind which may arise, and it would seem that the question is one which should be determined in the first instance by the bank itself in the light of all the facts of the case and the spirit and intention of the statute. The law does not prevent a member bank from making a loan to a customer on stock or bond collateral which has been borrowed by him from another customer to whom the bank has loaned an amount equal to 10 per cent of its capital and surplus on stock or bond collateral, provided the transaction is entered into in good faith and is not a device to evade the limitation of the law. However, in the case presented it is understood that the proceeds of the loan to the second borrower will be made available by him to the first borrower and thus the second borrower may be merely an agent or medium through whom the second loan will be made indirectly to the first borrower. If this should be the case, the second loan would seem to be one which exceeds the limitation of the statute.

"In view of the fact that this question is one which can be determined only in the light of all of the facts of the particular case, the matter is being referred to your bank. It will be appreciated if you will communicate with the Merchandise Bank and Trust Company and make such reply to the letter as seems proper in the light of all the circumstances."

Approved unanimously.

Letter to Mr. Harrison, Chairman of the Presidents' Conference,

reading as follows:

"Mr. Strater, Secretary of the Conference of Presidents, has advised the Board that the Conference at its meeting on Monday, January 25, 1937, ordered the following statement of the views of the Conference brought to the attention of the Board of Governors:
"The Presidents Conference is concerned by a weakening of the par collection system in certain sections of the country (which may be accentuated by putting into effect paragraph (f) of Section I of Regulation Q); and recognizes the danger to Federal Reserve membership through an increasing competitive inequality between member and non-member banks with respect to exchange charges, and also notes a growing tendency in such sections in the resumption of exchange charges with the attendant expense and annoyance to business.

'The Conference believes this situation can best be met by a requirement that non-member banks in the F. D. I. C. cease from making charges for the collection of checks drawn on them. It is suggested that if the F. D. I. C. does not have the power to make this requirement by regulation that the Board of Governors recommend at an appropriate time the necessary legislation to the Congress.'

"The various aspects of the problem of par clearance, and particularly its bearing upon the competitive situation between member and nonmember banks, are matters which for some time past have been receiving careful thought by the Board and its staff and the Board is glad to have the views of the Conference of Presidents with respect to this subject. However, while the Federal Deposit Insurance Corporation is authorized by the law to prescribe such rules and regulations as it may deem necessary to carry out the provisions of the statute under which it operates, there appears to be no sufficient reason for believing that this power could be legally extended to prohibit insured banks from making exchange charges as to justify approaching the Federal Deposit Insurance Corporation with such a suggestion at this time.

"The Board of Governors recognizes the importance of the matter and will continue to give it careful study with the hope that a satisfactory solution of the problem may be reached."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Chairman.

[Signature]

Secretary.