

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 23, 1937, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Davis

Mr. Morrill, 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:

Telegram to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"As a result of a review of the records of service of directors of branches of Federal reserve banks who have been reappointed recently, it has come to the attention of the Board that Mr. E. O. Howard was first appointed a director of the Salt Lake City Branch on November 20, 1930, and has served continuously since that date but, notwithstanding this length of service, he was reappointed by the Federal Reserve Bank of San Francisco as a director of the Salt Lake City Branch for a term of two years beginning January 1, 1937.

"On the basis of this information, the Board has requested that the attention of your board of directors be directed to the fact that it appears that this action on the part of the Federal Reserve Bank of San Francisco was in violation of the Board's regulation, a copy of which was

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"transmitted to the Federal Reserve Bank of San Francisco with its letter of January 9, 1935, (X-9083), paragraph six of which provided that 'no director, other than the managing director, shall be reappointed for a term immediately following six or more years of continuous service as a director' and that, although the regulation was amended in the form of which a copy was inclosed with the Board's letter of January 4, 1937, (X-9778), the appointment was not authorized by such amendment and that, therefore, Mr. Howard cannot qualify as a branch director.

"It will be appreciated if you will submit this letter to the board of directors of your bank at its next meeting and advise the Board of Governors of the disposition made of the matter by your board."

Approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of February 13, 1937, with regard to the connection of Mr. James W. Harris, a Class B director of your bank, with the Governmental Research Institute. This matter was the subject of discussion in our telephone conversation on February 19, 1937.

"It appears that Mr. Harris for about seven years has been a member of the Municipal Research Bureau, a non-salaried group of St. Louis citizens, who have been observing municipal activities with a view to keeping down expenses. This Bureau expects to enlarge its activities and to change its name to the Governmental Research Institute. It is understood that it is a purely voluntary organization of citizens of St. Louis having no connection with any local government or Federal agency, that it has no partisan political connection, and that its membership is not in any way determined by political considerations. It is also understood that its functions are purely those of a citizens' organization, advisory in character, with no authority, and that it may or may not agree with or criticize governmental activities.

"In the circumstances, the Board offers no objection to Mr. Harris' continuing his connection with this Bureau or Institute while serving as a Class B director of the Federal Reserve Bank of St. Louis."

Approved unanimously.

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

"Reference is made to Mr. Dillistin's letter of February 10, 1937, regarding the proposed plan whereby the 'Lincoln-Alliance Bank and Trust Company', Rochester, New York, will acquire the business of the Brockport National Bank, Brockport, New York, and establish a branch at Brockport.

"In accordance with the recommendation of the Federal Reserve Bank, the Board approves the establishment and operation by the Lincoln-Alliance Bank and Trust Company, Rochester, New York, of a branch at Brockport, New York, effective upon the acquisition of the business of the Brockport National Bank. As you know, the Board has frequently expressed the opinion that estimated losses in loans and other assets should be charged off or otherwise eliminated and has prescribed conditions requiring State member banks to conform to such policy prior to the establishment of branches. From the information available, it appears that although substantial charge-offs have been made, the Lincoln-Alliance Bank and Trust Company has not eliminated all of the estimated losses as classified in your examiner's report of examination as of April 24, 1936. It is recognized that during the time which has elapsed since the examination considerable change may have been effected in the classified assets, and accordingly the Board has not conditioned its approval of the establishment of the branch upon the elimination of all of the estimated losses shown in the report of examination as of April 24, 1936. It is expected, however, that any estimated losses shown at the time of the next examination will be promptly eliminated.

"It has been noted that, in the opinion of your office, the proposed absorption of the Brockport National Bank will not result in any change in the general character of the assets of, or broadening in the functions exercised by, the trust company within the meaning of the general condition under which it was admitted to membership in the Federal Reserve System. In view of the circumstances, the Board likewise does not regard the transaction as coming within the scope of that condition of membership.

"It is assumed that the Brockport National Bank is aware of the provisions of section 12B (i) (4) of the Federal Reserve Act relating to the termination of the insurance on its

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"deposits; however, it may be advisable to call the bank's attention to the provisions of such section in order that instructions may be obtained from the Federal Deposit Insurance Corporation relative to the procedure to be taken to terminate the insured status of the national bank."

Approved unanimously.

Letter dated February 20, 1937, to the Presidents of all Federal reserve banks, transmitting forms and instructions in connection with the next call for condition reports of State member banks and their affiliates.

Approved unanimously.

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

"This refers to your letter of January 6, 1937 addressed to Mr. Parry, Chief of the Division of Security Loans, regarding the following situation under Regulation T:

' * * *, a customer cabled his broker instructions * * * to purchase listed securities costing \$10,600, which were purchased for his account. Prior to this transaction, the account was restricted to the extent of a few hundred dollars. During the preceding thirty days dividends in the amount of approximately \$500 had been credited to the account and not withdrawn, and there had been no transactions in the account subsequent to the crediting of the dividends until the subject transaction.'

"Section 8(b) of the regulation permits the withdrawal of the dividends here involved, and you present the question whether it is permissible for the broker to deduct the withdrawable dividends from the amount of the demand for margin, merely demanding the difference of about \$5400. Otherwise, of course, the broker would be required to demand the full amount of margin in the sum of about \$5900, possibly forwarding with such a demand for margin a check for the approximately \$500 of dividends.

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"The Board agrees with your view that it is permissible for the broker to deduct the amount of the withdrawable dividends from the amount of the demand for margin instead of demanding the full amount of margin without deduction of the dividends. In order to make it clear, however, that the dividends are not thereafter available for other purposes, and also to comply fully with the requirement of the regulation that margin be demanded upon the basis of the aggregate transactions in the account on a given day, the notation that the dividends are no longer withdrawable (which in effect amounts to a withdrawal and redeposit of the dividends) should be made on the date of the transaction in question rather than on the later date on which margin is deposited in response to the demand."

Approved unanimously.

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

"This refers to Mr. Dawes' letter of January 20, 1937, addressed to Mr. Parry, Chief of the Division of Security Loans, regarding Regulation U. The inquiry refers to a case in which a bank makes an agreement with an out of town customer to lend a certain sum of money on a registered stock, the amount being 45 per cent of its then market value. The borrower delivers the stock and the note as promptly as possible on the next day, but the market value of the stock becomes lower in the interval so that the amount the bank has agreed to lend is in excess of 45 per cent. The question presented is whether Regulation U permits the bank to carry out its commitment.

"In a case such as that presented in which the bank enters into an enforceable commitment, the details of the loan are perfected insofar as practicable on the first day, and the negotiations for and completion of the loan take place as nearly contemporaneously as the circumstances of the case permit, it is the view of the Board that the market value of the stock for the purpose of completing the loan may properly be determined as of the time when the bank and customer agree upon the amount and terms of the loan. The Board feels, however, that any clearly foreseeable change in the stock during the interval such as a split-up of the shares

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"or the stock selling 'ex' a dividend of any kind, should be taken into account in such a determination."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morice
Secretary.

Approved:

W. C. ...
Chairman.