A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, February 24, 1937, at 12:15 p.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. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"Your telegram. Board approves for your bank, effective February 25, following rates on industrial advances under provisions of section 13(b) of Federal Reserve Act: 4 per cent to 5 1/2 per cent per annum on direct advances to established industrial or commercial businesses; 3 1/2 per cent per annum on industrial advances to financing institutions for the portions of advances for which such institutions are obligated, and 4 per cent per annum on remaining portions."

Approved unanimously.

Bond, in the amount of $50,000, executed under date of February 16, 1937, by Miss C. Margaret J. Reid as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Philadelphia.

Approved unanimously.

Memorandum dated February 19, 1937, from Mr. Dreibelbis, Assistant General Counsel, recommending that the salary of Mrs.
Elsa B. Poiseau, a stenographer in the Legal Division, be increased from $1,620 to $1,740 per annum, to be effective at the beginning of the first semi-monthly pay period following the date on which approved by the Board.

Approved unanimously.

Memorandum dated February 19, 1937, from Mr. Davis submitting a recommendation, concurred in by Mr. McKee, that Mr. George Chance, Bryan, Brazos County, Texas, be appointed a director of the Houston Branch of the Federal Reserve Bank of Dallas for the unexpired portion of the term ending December 31, 1937.

The recommendation was approved unanimously, with the understanding that before entering upon his duties Mr. Chance would sever his connection as Vice President of the City National Bank of Bryan, Texas.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, referring to the application of the "Farmers and Merchants State Bank of Sacred Heart", Sacred Heart, Minnesota, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Farmers and Merchants State Bank of Sacred Heart, the Federal Reserve Bank of Minneapolis is authorized to cancel such stock and make appropriate refund thereon. The telegram also stated that it was assumed that, in accordance with the bank's desire, the termination of its membership in the System would be deferred until it could simultaneously be accepted by the Federal Deposit Insurance Corporation as a nonmember
insured bank.

Approved unanimously, together with a
letter to Mr. Leo T. Crowley, Chairman of the
Federal Deposit Insurance Corporation, reading
as follows:

"The Board has today approved the application of the 'Farmers and Merchants State Bank of Sacred Heart', Sacred Heart, Minnesota, for permission to withdraw from member-
ship in the System and waived the usual six months' notice
of intention to withdraw. It is understood, however, that
the bank desires to continue, without interruption, its
status as an insured bank, and that it desires the insur-
ance on deposits as a nonmember to become effective simul-
taneously with its termination of membership in the System.

"It is assumed, therefore, that you may desire to make
an examination of the bank and, in accordance with the pro-
visions of subsection (k) (2) of section 12B of the Federal
Reserve Act, the Board hereby grants written consent for
examiners for the Federal Deposit Insurance Corporation to
examine the Farmers and Merchants State Bank of Sacred Heart
in connection with its application for continuation of de-
posit insurance as a nonmember bank."

Letter to Mr. N. C. Lenfestey, Cashier, The National City Bank
of New York, New York, New York, reading as follows:

"Reference is made to your letters of December 29,
1936 and February 5, 1937, with respect to the applica-
tion for permission for the Cuban branches of The Na-
tional City Bank of New York to exercise fiduciary powers.

"The Board of Governors hereby consents to the exer-
cise by The National City Bank of New York, at its
branches located in Cuba, of any of the fiduciary powers
heretofore granted it by the Board pursuant to section
11(k) of the Federal Reserve Act, provided that the exer-
cise of such powers in Cuba is not in contravention of
the local law and that in exercising such powers at its
Cuban branches the bank shall comply in all respects
with the applicable provisions of the Federal Reserve
Act and with the regulations of the Board of Governors.
It is understood from the information submitted that the
trust accounts of the Cuban branches will all be carried
and administered at the Havana Branch, and that such fidu-
ciary business as may be transacted at the other Cuban
"branches will be under the supervision of the trust department of the Havana Branch."

Approved unanimously.

Letter to Honorable Wright Patman, House of Representatives,

Prepared for the signature of Chairman Eccles, and reading as follows:

"Reference is made to your letter of February 1 requesting information as to the amount of profits realized by the Federal reserve banks during the year 1936 from the sale of United States Government securities and by member banks through the sale of United States Government and other securities.

"The operations of the Federal reserve banks are not conducted for the purpose of making profits, and their transactions in Government securities are subject to the directions and regulations of the Federal Open Market Committee, consisting of all the members of the Board of Governors and five representatives of the Federal reserve banks. The aggregate amount of Government securities held by the twelve Federal reserve banks was not increased during the year 1936 and, while prices of Government securities rose during the year, income therefrom declined. In order to maintain a proper distribution of maturities in the portfolio, offsetting sales and purchases were made from time to time and maturing securities were replaced by new issues. During the course of the year Government securities which were held by some individual Federal reserve banks were transferred to the open market account of the system as a whole and since then individual Federal reserve banks have not been permitted to retain separate investment accounts for Government securities. The net profit of the twelve Federal reserve banks from the sale of Government securities during 1936, exclusive of premiums received on maturing securities and on transfers of securities to the System Open Market Account by individual Federal reserve banks, was $3,169,000. Premiums of $3,281,000 realized on sales in the market of such maturing Government obligations were offset by premiums paid on new issues purchased in the market in replacement of the maturing securities. Individual Federal reserve banks reported profits of $2,453,000 on securities transferred to the System Open Market Account at current market values, but this did not represent a
"Profit to the System as a whole, as these securities were taken into the System Open Market Account at the current market values.

"Separate figures of profits on United States Government securities sold by member banks are not available, and figures of earnings, expenses and profits of member banks for the last half of 1936 will not be available for some time. Member banks are not required to publish reports of earnings and expenses and the reports of the individual banks are treated as confidential by the Board.

"For the first six months of 1936 national banks reported profits of $78,919,000 on securities sold and $67,932,000 of recoveries on bonds, stocks and other securities. They also reported losses and depreciation on securities charged off during the six-months' period of $44,979,000. During the same period State bank members of the Federal Reserve system reported profits of $56,610,000 on securities sold and $16,999,000 of recoveries on bonds, stocks and other securities. They also reported losses and depreciation on securities charged off during the six-months' period of $20,336,000."

Approved unanimously.

Memorandum dated February 16, 1937, from Mr. Smead, Chief of the Division of Bank Operations, recommending that the text accompanying the Board's weekly statement of condition of Federal reserve banks be revised so as to place more emphasis on changes in member bank reserve balances than on changes in Federal reserve bank credit outstanding as is done in the present form of text statement; that the caption "Gold stock" be substituted for the caption "Monetary gold stock" to conform with the present practice of the Treasury Department; that the item "Treasury cash and deposits with Federal reserve banks" be divided into the items "Treasury cash" and "Treasury deposits with Federal reserve banks"; and that the amount of inactive
gold included in the gold stock and in Treasury cash be indicated.

Approved unanimously.

Letter to Honorable Carl Hayden, United States Senate, reading as follows:

"At the request of Chairman Eccles, I am replying to your letter to him dated January 18, 1937, regarding the question of the desirability of Congress enacting legislation to permit the States and their political subdivisions to tax Federal instrumentalities in so far as their operations are of a proprietary nature. Inclosed with your letter was a copy of a letter from Mr. Charles Woolf, Phoenix, Arizona, submitting certain data regarding a number of Federal agencies which he believes are doing more or less business of a proprietary nature in Arizona. Mr. Woolf expresses the view that these Federal agencies should be made subject to State or local taxation, or both, on their proprietary business and states that by proprietary business he means business such as is usually engaged in by persons and corporations as distinguished from duties and activities that are essentially governmental in character.

"Careful thought has been given to this matter, and it is the opinion of the Board of Governors that Federal Reserve banks should not be brought within the scope of such legislation, since they do not exercise proprietary functions and do not come into competition with private enterprise.

"Among the more important functions of the Federal Reserve banks are the holding of the reserves of member banks, the making of discounts for and advances to member banks, the furnishing of an elastic currency in the form of Federal Reserve notes, the providing of a national system for the clearing and collection of checks, the conduct of open-market operations with the view of accommodating commerce and business and with reference to their effect on credit conditions, and the performance of many important fiscal agency functions for the Federal Government. It is manifest that the performance of these functions does not constitute the doing of a proprietary business which should be the subject of State or local taxation.

"In addition to the functions mentioned above, the Federal Reserve banks have authority under the provisions of
"the last paragraph of section 13 and the provisions of section 13b of the Federal Reserve Act to perform certain functions which, upon first impression, might possibly be thought to constitute a proprietary business. However, a thorough study of the qualifications which circumscribe the authority granted in these sections, and, more especially, an examination of the actual functioning of the Federal Reserve banks under these provisions of the law, will demonstrate that the activities of the Federal Reserve banks under these sections are not in competition with private enterprise and do not constitute the carrying on of a proprietary business.

"Under the provisions of the last paragraph of section 13 of the Federal Reserve Act, which was added by the Emergency Banking Act of March 9, 1933, the Federal Reserve banks may make loans to individuals, partnerships, and corporations on the security of direct obligations of the United States. These loans may be made for periods not in excess of 90 days and must be made at rates which are subject to the review and determination of the Board of Governors of the Federal Reserve System. The total amount of loans which the Federal Reserve banks made under the authority of this provision during the years 1935 and 1936 was $5,000 and the amount outstanding on December 31, 1936, the last date for which figures are available, was only $1,000. The purpose of this provision of the law was to enable the Federal Reserve banks to make advances to individuals and corporations for pay roll and other necessary purposes at a time when the commercial banks of the country were closed. With the passing of this emergency little use was made of this authority.

"Under the provisions of section 13b of the Federal Reserve Act, which was added by the Act of June 19, 1934, Federal Reserve banks may make loans for periods not exceeding 5 years to established industrial or commercial businesses. However, the law provides that such loans may be made only "in exceptional circumstances," when it appears that the borrower "is unable to obtain requisite financial assistance on a reasonable basis from the usual sources". As you are no doubt aware, the authority contained in section 13b of the Federal Reserve Act was granted for the purpose of enabling the Federal Reserve banks to supply a credit need which it was felt was not being supplied by banks or other private financial institutions, and not to enable Federal Reserve banks to compete with such institutions. In accordance with the requirements of the law, the Federal Reserve banks have scrupulously avoided the making of loans which the borrower could
"obtain from the usual sources and have made advances under this section to commercial and industrial businesses only in cases where banks and other institutions were unable or unwilling to make the requisite advances. The volume of advances being made under this section is comparatively small at the present time and is rapidly declining. The law also provides that the Federal Reserve banks shall have power to extend credit to any bank or other financing institution for periods not exceeding 5 years on the security of obligations of such institutions issued for the purpose of providing working capital to established industrial or commercial businesses, but it is believed to be clear that this authority does not involve a proprietary function.

"It is essential to keep in mind that the Reserve banks are not operated for the purpose of making profits, either for the Reserve banks themselves or for the member banks who own the stock of the Reserve banks. They are the agencies through which national credit policies are effectuated. The law requires that discount rates of Federal Reserve banks be fixed with a view to accommodating commerce and business, and that open-market operations of the Federal Reserve banks be governed with a view to the same considerations and with regard also to the bearing of such operations upon the general credit situation of the country. The Federal Reserve banks are, therefore, conducted for public rather than private purposes.

"Even when they are not called upon to extend credit to their member banks, the Federal Reserve banks render countless daily services to the public and to the Government. For instance, during the calendar year ending June 30, 1936, the Federal Reserve banks collected free of charge checks amounting to $18 billion dollars and, as fiscal agents of the Government, handled the issue, redemption, and exchange of Government obligations amounting to more than $27 billion dollars.

"Moreover, Federal Reserve banks act as depositaries and fiscal agents of the United States and in this capacity perform many services which are of great value to the Government. Since 1920 they have carried on the functions of the former subtreasuries which were abolished by law in that year. As depositaries and fiscal agents of the United States they maintain accounts for the Treasurer of the United States, collect checks deposited for the credit of the Treasurer, cash checks of Government disbursing officers, act for the Treasury and other Governmental agencies in the flotation of new issues of
"securities, redeem bonds and coupons of the Government, and perform many other similar services. The fiscal agency functions of the Federal Reserve banks include also the handling of securities and the disbursement of funds for such institutions as the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Home Owners' Loan Corporation, the Federal Home Loan banks, the Farm Credit Administration, the Federal Land banks, the Federal Farm Mortgage Corporation, the Federal Intermediate Credit banks and other Governmental agencies. Those agencies could not have been placed into operation so quickly nor could they have functioned so economically and efficiently had it not been for the fiscal machinery of the Federal Reserve banks already in existence.

"Since its enactment in 1913 the Federal Reserve Act has provided that Federal Reserve banks, including the capital stock and surplus therein and the income derived therefrom, shall be exempt from Federal, State, or local taxation, except taxes upon real estate. This exemption from taxation was enacted by Congress in recognition of the fact that the functions of the Federal Reserve banks are Governmental rather than proprietary in nature and it is respectfully submitted that there has been no change in the situation which would make advisable the removal of this protection from these banks, which at present constitute one of the most effective and economical agencies serving the United States Government and its instrumentalities in the handling of fiscal operations and in effectuating national credit policies.

"As you requested, a carbon copy of this letter is enclosed. It is hoped that the above discussion will be of assistance to you in this matter and that you will feel free to call upon us at any time when you think we may be of assistance."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks reading as follows:

"You are hereby advised that the Board's Form 61c, 'Analysis of report of examination', heretofore used in connection with applications of national banks for permission to exercise trust powers, is being discontinued, and you are authorized, therefore, to omit that form when submitting such applications to the Board."

Approved unanimously.
Thereupon the meeting adjourned.

Approved:

Chairman.

Secretary.