

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 16, 1937, at 2:15 p. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Broderick  
Mr. Szymczak

Mr. Morrill, Secretary  
Mr. Bethea, 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 March 15, 1937, were approved unanimously.

Telegram to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, 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. Max Lowenthal, Counsel, Senate Railroad Investigation, Committee on Interstate Commerce, reading as follows:

"Receipt is acknowledged of your letter of March 15, requesting that the Board grant Mr. George H. Folsom, one of the Board's examiners, leave without pay beginning today, in order that his services may be immediately available to the Committee on Interstate Commerce for a further period.

"The Board approves the arrangement outlined in your letter and the necessary leave of absence, on the understanding, as stated in my letter of March 1, 1937, that the Committee will assume the payment of Mr. Folsom's salary during the further period his services are utilized by it, and

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"that he will be released by the Committee to resume his duties with the Board at the earliest possible date."

Approved unanimously.

In connection with the above matter consideration also was given to a memorandum dated March 16, 1937, from Mr. Bethea, Assistant Secretary, recommending that the Board authorize the continuance of its contributions to the Retirement System on behalf of Mr. Folsom in order to preserve his retirement status during the period his services are utilized by the Committee, in accordance with Section 4, Paragraph 3, of the Rules and Regulations of the Retirement System, with the understanding that Mr. Folsom will continue to make his own contributions to the Retirement System fund during such period. The memorandum stated that Mr. Folsom had advised that, in the event the compensation paid him by the Committee is in excess of the salary which he is now receiving as an employee of the Board, he will reimburse the Board for the contributions which it makes on his behalf (or such part thereof as may be equitable) which would be accepted by the Board's Fiscal Agent as "miscellaneous receipts".

Approved unanimously.

Letter to the board of directors of the "Carroll County Trust Company of Carrollton, Missouri", Carrollton, Missouri, 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

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Reserve Bank of St. Louis:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$6,826.48, as shown in the report of examination of such bank as of January 13, 1937, made by an examiner for the Federal Reserve Bank of St. Louis."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Carroll County Trust Company of Carrollton, Missouri', Carrollton, Missouri, for membership in the Federal Reserve System, 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 Commissioner of Finance for the State of Missouri for his information.

"It has been noted that, although the bank is authorized to exercise full fiduciary powers, the volume of trust business is small and the trust department is maintained primarily as an accommodation for the bank's customers. It has been noted also that a trust committee has not been appointed and that purchases and sales of trust investments and other important matters pertaining to trusts are not authorized or approved by the directors. One of the fundamental principles in the operation of a trust department, recognized both in the Statement of Principles of Trust Institutions approved by the Executive Council of the American Bankers Association and the Board's Regulation F pertaining to trust powers of national banks, is that the responsibility for the administration of trusts should not be vested in an individual but in a committee composed of capable and experienced officers or directors of the institution. Trust business, no matter how small, should not be accepted unless the bank is organized and equipped to handle it properly and it is suggested, therefore, that you satisfy yourself that proper steps are taken to bring the operations of the

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"trust department of the bank into conformity with recognized principles of sound fiduciary practice."

Letter to the board of directors of the "State and Trust Bank", Highland, Illinois, 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 St. Louis:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$3,871, as shown in the report of examination of such bank as of January 18, 1937, made by an examiner for the Federal Reserve Bank of St. Louis."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'State and Trust Bank', Highland, Illinois, for membership in the Federal Reserve System, 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 Auditor of Public Accounts of the State of Illinois for his information.

"It has been noted that one of the directors of the bank, L. M. Stoecklin, is reported to be a salesman for a firm dealing in securities and that Mr. Wood has suggested that the bank be advised that Mr. Stoecklin cannot continue to serve as a director of the bank after its admission to membership and retain his connection with the securities organization. It is assumed, of course, that it has been ascertained that Banning and Company, the firm in question, is

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"engaged in the business described in section 32 of the Banking Act of 1933, and that the business of the firm is not confined to securities of the type which would permit the relationship to continue under the exceptions provided in the Board's Regulation R. On such assumption, it is requested, therefore, that, in accordance with the suggestion of Mr. Wood, the bank be informed of the necessity of complying with the provisions of section 32 and the Board's Regulation R as they relate to the services of Mr. Stoecklin. Please advise the Board of the steps which are taken to conform to such provisions.

"On the date of the membership examination the trust department had approximately \$62,000 on deposit in the banking department. It is assumed in this connection that the management's attention has been called to the fact that condition of membership numbered 6 will require the pledge of collateral with the trust department when trust funds are deposited in the banking department; that, however, such condition contemplates a valid pledge; that it is understood that under the laws of the State of Illinois a State bank may not effect a valid pledge of collateral to secure trust funds, and that, so long as such condition prevails, the bank, after admission to membership, cannot deposit trust funds in its own banking department or otherwise use such funds in the conduct of its business.

"The papers submitted with the bank's application for membership did not include a copy of the application which was executed in connection with the organization of the bank in 1903. In order that the Board's records may be complete, it will be appreciated if you will furnish it with a properly certified copy of such application to organize, since it is understood that the application is analogous to the articles of incorporation which are usually filed by State banks in other states."

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board has reviewed the information submitted in connection with the application of The Manistique Bank of Manistique, Michigan, for membership in the Federal Reserve System.

"It appears from the information submitted that, as was the case when the previous application of the bank for membership was considered last February, the bank's general financial condition and prospects are not such as to warrant approval of the application. Therefore, in accordance with

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"your recommendation, in which the Federal Reserve Agent concurred, the Board does not approve the application of The Manistique Bank of Manistique, Michigan, for membership at this time. In taking this action the Board, as you know, has necessarily had in mind the factors to which it must give consideration in order to furnish to the Federal Deposit Insurance Corporation the certificate required by law in view of the fact that the applicant has not heretofore obtained insurance from that Corporation. In the circumstances, it is suggested that you communicate with the bank and suggest the withdrawal of the application from further consideration. In such event, although the application itself and the accompanying papers will remain a part of the Board's files, no adverse action thereon will be taken.

"From the information submitted it appears that the situation would best be served by a merger or consolidation of the applicant with one of the other banks in the community, but if, at a later time you feel that the Board would be justified in again considering an application by the bank for membership, the Board will be glad to do so upon the basis of current information accompanied by your recommendation."

Approved unanimously.

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

"Reference is made to your letter of March 9, 1937, transmitting the request of the 'Hagerstown Trust Company', Hagerstown, Maryland, for permission in accordance with the provisions of membership condition numbered 8 to purchase for \$80,000 the banking quarters which it now occupies under lease from the Surety Real Estate Corporation.

"In view of the information submitted and in accordance with your recommendation the Board interposes no objection to such investment in the amount indicated, and it is requested that you advise the bank accordingly. It is suggested that you acquaint the bank with the Board's views, with which you are familiar, with respect to making adequate provision for depreciation in banking quarters owned."

Approved unanimously.

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors of the Federal Reserve System has

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"considered the recommendation contained in your letter of January 12, 1937, in which the board of directors of your bank concurs, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to 'The Northeast National Bank of Philadelphia', Philadelphia, Pennsylvania, to maintain the same reserves against net demand deposits and time deposits as are required to be maintained by member banks not in Reserve or Central Reserve cities, effective as of March 16, 1937.

"Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously, having also  
been previously approved by Mr. Davis.

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

"Reference is made to your letter of January 29, 1937, requesting advice as to the applicability of the provisions of Regulation U in a situation disclosed in a recent examination of the Continental-American Bank & Trust Company, Shreveport, Louisiana, described as follows:

'\* \* \* on April 28, 1936, the bank loaned \$4,330 to a customer to enable him to purchase certain stocks registered on a national securities exchange, and \* \* \* on July 29, 1936, the bank loaned the same customer \$1,800 additional for a similar purpose, and at the same time renewed the \$4,330 note referred to above, taking a single new note from him in the sum of \$6,130 to cover both the new advance and a renewal of the old loan. In both cases the advances were secured partly by stocks.

'At the time the new note was taken, the collateral held by the bank had a market value sufficient to meet the requirements of Regulation U for a loan of \$1,800, but not sufficient for a loan of \$6,130.'

"In this connection you refer to section 3(d) of the regulation which provides that:

'The renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the addition of interest or service charges on the loan or of taxes on transactions in connection with the loan.'

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"Since this provision states that the renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the items specified, it is reasonably to be implied that the increasing of a loan in any other manner should be treated as the making of a loan. While the provision does not expressly state whether or not it applies to loans made before May 1, 1936, it is the view of the Board that it should be construed as applying to such loans. Thus the renewal or extension of maturity of such a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the items specified. Similarly, any other increase should be treated as the making of a loan, and it would seem that such an increase should be so considered even in the absence of section 3(b). For example, it would seem that in the present case, even without section 3(b), the \$4,330 loan is the only loan which could properly be considered to have been made prior to May 1, 1936 since neither the new loan of \$1,800 nor what might be considered the combined loan of \$6,130 came into existence until after that date.

"For these reasons, it is the opinion of the Board that although section 3(d) permits the \$4,330 loan to be continued as a loan made prior to May 1, 1936 it does not permit the \$1,800 loan to be so treated. While the \$4,330 loan need not be considered to have lost its status as an old loan merely because it is now represented by the same note which represents the new loan of \$1,800, the \$1,800 loan can not take on the status of the old loan merely because it is represented by that note.

"As indicated in the Board's letter (X-9599) of June 1, 1936, the \$1,800 loan could be made in this case without obtaining additional collateral and, therefore, it would seem that the bank has not violated the regulation. It should be understood, however, that a loan for the purpose of purchasing or carrying stocks registered on a national securities exchange has been made after May 1, 1936 in the amount of \$1,800 and, therefore, is subject to the provisions of the regulation. This should be taken into account in making further loans to the borrower or permitting withdrawals or substitutions of collateral; and if the bank prefers to have a single note represent both the old loan and the new loan, it seems advisable that the identity of the two loans be indicated in some way, such as by a notation on the note, so that confusion may not result in the future."

Approved unanimously.

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



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"Referring your March 12 letter, Board has no objection to your bank holding its regular April meeting at Jacksonville, Florida."

Approved unanimously.

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

"Reference is made to your letter of March 3 in regard to expenditures of the Federal Reserve bank in connection with the encouragement and support given by the Federal Reserve bank to the local chapter of the American Institute of Banking and the Graduate School of Banking at Rutgers University.

"It is noted that in accordance with the practice followed by your bank for a number of years employees were advised prior to the beginning of the school year last fall that those who qualify to take the examination in any courses provided by the local chapter would be reimbursed for the fees in such courses, and the Board will interpose no objection to this arrangement for the current school year."

Approved unanimously.

Thereupon the meeting adjourned.

Robert H. Hooper  
Secretary.

Approved:

W. S. Hooper  
Chairman.