

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 15, 1937, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Paulger, Chief of the Division of
Examinations
Mr. Dreibelbis, Assistant General Counsel
Mr. Currie, Assistant Director of the
Division of Research and Statistics

The members of the Board had reviewed the record with respect to the citation by the Board under the provisions of section 30 of the Banking Act of 1933 of Mr. T. O. Morton to appear and show cause why he should not be removed from office as a director and officer of The Taylor National Bank of Campbellsville, Kentucky. The Board was advised that, notwithstanding the fact that Mr. Morton was served on May 3, 1937, with a copy of the order to show cause, which stated that a hearing on the matter would be held on June 7, 1937, Mr. Morton appeared at the hearing only by counsel who made no answer to, and offered no testimony controverting, the charges contained in the certificate filed with the Board by the Comptroller of the Currency under date of April 27, 1937, or the testimony offered in support thereof; and that, while Mr. Morton had been given the

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period until June 27 (which date after a request by Mr. Morton for additional time was extended to July 13) in which to file a brief in answer to the charges, no brief or argument had been received.

The evidence contained in the record was discussed and it was agreed unanimously that the Board would be justified in finding that Mr. Morton had continued to violate laws relating to the Taylor National Bank and had continued unsafe and unsound practices in conducting the business of such bank after having been warned by the Comptroller of the Currency to discontinue such violations of law and such unsafe and unsound practices; and, therefore, that the Board, on the basis of all of the evidence presented, should issue an order removing Mr. Morton from office.

Mr. Broderick moved that, as a review of the record showed conclusively that Mr. Morton, after having been duly warned by the Comptroller of the Currency, had continued unsafe and unsound practices in conducting the business of the national bank and had continued to violate various provisions of law relating to the bank, and as he has shown a complete disregard for the principles of good banking and trusteeship, the Board issue the following order:

"J. F. T. O'Connor, Comptroller of the Currency of the United States, being of the opinion that T. O. Morton as a director and officer of The Taylor National Bank of Campbellville, Campbellville, Kentucky, has continued to violate laws relating to such national banking association and has continued unsafe or unsound practices in conducting the business of said association after having been warned by the Comptroller of the Currency to discontinue such violations of law and such unsafe or unsound practices; and having, under date of April 27th, 1937, certified the facts relating to such violations of law and such unsafe or unsound practices to the Board of Governors of the Federal Reserve System; and the Board having caused due notice to be served

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"upon the said T. O. Morton to appear before it and show cause why he should not be removed from office as a director and officer of The Taylor National Bank of Campbellsville, Campbellsville, Kentucky; and the said T. O. Morton having been given a reasonable opportunity to be heard and having appeared by counsel, but having wholly failed to make any answer to the charges contained in said certificate; and the Board having heard all of the evidence and having fully considered the same finds that, as recited in the certificate of the Comptroller of the Currency filed with it, the said T. O. Morton has continued to violate laws relating to such national banking association and has continued unsafe or unsound practices in conducting the business of such bank after having been warned by the Comptroller of the Currency.

"Accordingly, it is ordered by the Board that the said T. O. Morton be and, when a copy of this order has been served upon the bank as hereinafter directed, he is thereby removed from office as a director and as an officer of The Taylor National Bank of Campbellsville, Campbellsville, Kentucky, and he shall thereupon cease to be a director and officer of said bank.

"It is further ordered and directed that the Secretary of this Board cause a copy of this order to be served upon the said T. O. Morton and a copy of the same to be served upon The Taylor National Bank of Campbellsville, Campbellsville, Kentucky.

"By order of the Board of Governors this 15th day of July, A. D. 1937."

Carried unanimously.

Mr. Ransom stated that Chairman Eccles had been called to appear before the Banking and Currency Committee of the House of Representatives this morning and, therefore, was unable to be present at this meeting and that he had requested that, if action were taken at this meeting with respect to the removal of Mr. Morton, he wished to have it recorded that he favored the issuance of an order removing Mr. Morton from office.

Thereupon the Board instructed that copies of the order be served personally by a representative of the Board upon Mr. T. O. Morton and upon the Taylor National Bank as promptly as possible.

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In connection with the above matter, the following letter to Mr. J. T. Moore, Managing Director of the Louisville Branch of the Federal Reserve Bank of St. Louis, was approved unanimously:

"There are inclosed herewith an original and three copies of an order entered by the Board, removing Mr. T. O. Morton as an officer and director of The Taylor National Bank of Campbellsville, Campbellsville, Kentucky.

"You will observe that the Board's order provides for service of the order upon Mr. Morton and upon the bank. The Board desires that the notice be served personally upon Mr. Morton and upon the bank, and, accordingly, will appreciate your designating someone in your organization to go immediately to Campbellsville and serve the notice in accordance with the following directions.

"It is desired that service of the order upon Mr. Morton be effected by delivering him one of the inclosed certified copies. Inasmuch as the bank is in the hands of A. M. Anderson who has been appointed Conservator of the bank by the Comptroller of the Currency, the Board desires that service upon the bank be effected by delivering one of the inclosed copies of the order to Mr. Anderson and the remaining copy to Mr. W. H. Goode, the cashier of the bank.

"The original of the inclosed order contains forms for each of these gentlemen to acknowledge receipt of delivery to him of a copy thereof and it will be appreciated if the person whom you designate to make the service will endeavor to have each of them acknowledge receipt of a copy of the order in the space prepared for that purpose. Likewise, you will observe that attached to the original are affidavits to be executed by the person effecting the service.

"When service has been effected and the affidavits of service have been executed, the original should be returned to the Board."

Mr. Broderick moved that, in view of the interest of the Comptroller of the Currency and the Federal Deposit Insurance Corporation in the Taylor National Bank, advice of the removal of Mr. Morton from office be sent to them immediately.

Carried unanimously.

Thereupon, letters to Mr. J.F.T. O'Connor, Comptroller of the Currency, and Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, were approved unanimously as follows:

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"This is to advise you for your confidential information that, pursuant to the provisions of section 30 of the Banking Act of 1933, the Board has ordered that Mr. T. O. Morton be removed from office as a director and officer of The Taylor National Bank of Campbellsville, Campbellsville, Kentucky. A copy of such order is being served on Mr. Morton and on The Taylor National Bank of Campbellsville. You will be advised when such service has been effected."

There had been distributed among the members of the Board just before this meeting a draft of a statement prepared by Mr. Goldenweiser in accordance with the request made at the meeting of the Board on July 13, 1937, relating to bills before Congress having as their objective currency or price stabilization. Some of the members of the Board suggested that, in view of the importance of the subject matter of the statement, no action should be taken by the Board with respect thereto until the members had had an opportunity to study the statement and to formulate any suggestions they might desire to make regarding it.

Thereupon, it was agreed that the statement should be placed on the docket for consideration at the meeting of the Board on Tuesday, July 20, 1937, with the understanding that it would be studied carefully by the members of the Board during the interim.

Mr. Ransom expressed the view that the Board should reach a decision as promptly as possible on the question of the form in which the draft of Regulation A, Advances to and Discounts for Member Banks by Federal Reserve Banks, should be sent to the Federal reserve banks for their comments and suggestions, and that, consideration be given

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at this meeting to the suggestion previously made by Mr. McKee that a provision be included in the regulation under which Federal reserve banks, in making advances or discounts on the security of obligations of the United States, either direct or fully guaranteed, would give credit for the par amount of such obligations.

At this point Messrs. Paulger and Dreibelbis left the meeting and Mr. Vest, Assistant General Counsel, entered the room.

Copies of a proposed addition to the draft of regulation which had been prepared by Mr. Vest in accordance with Mr. McKee's suggestion had been furnished to all members of the Board before this meeting.

At the conclusion of a discussion, it was understood that the addition would be revised in accordance with suggestions made during the discussion and that the draft of regulation, together with the proposed letter to the Federal reserve banks asking for their comments and suggestions on the draft, would be made the special order of business at the next meeting of the Board.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Currie, and Vest left the meeting and 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 July 14, 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

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in its existing schedule.

Approved unanimously.

Memorandum dated July 12, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Nora V. Elder, Chief Draftsman in the Division, be granted an additional leave of absence with pay on account of illness for a period of thirty days beginning July 13, 1937.

Approved unanimously.

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

"There is transmitted herewith a copy of a letter from The First National Bank of Emlenton, Emlenton, Pennsylvania, in regard to the exercise of fiduciary powers, which is self-explanatory. Receipt of this letter has not been acknowledged by the Board.

"As you know, it has been the general practice of the Board to grant trust powers only in the terms of section 11(k) and, when granting a specific power, not to restrict it to particular accounts or classes of accounts, although exceptions to this practice have been made in a few cases where special circumstances appeared to justify such action.

"The First National Bank of Emlenton states that it does not desire to exercise trust powers other than to keep faith with the donors of the few accounts now on its books and that it does not wish to have the expense of setting up a new department. In the circumstances, of course, it will not be necessary for the Board to consider whether it would be willing to grant the bank trust powers generally. However, the Board is willing to consider an application from the bank for a permit to administer the trust accounts now on its books, provided it is clearly understood that the bank will not undertake to administer any other trusts than those now on its books, and provided, of course, you feel, in view of all the circumstances, that the Board would be justified in granting such limited powers to the bank."

Approved unanimously.

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

"Reference is made to your letter of June 25, 1937, identified as 'Inquiry No. 8 re Regulation U,' with which you inclosed copies of two letters received from certain banks in your district under date of June 8 and June 15, respectively, raising certain questions with respect to section 3(e) of Regulation U relative to the transfer of loans.

"1. Essentials of the Transfer of a Loan.

"Section 3(e) of Regulation U provides in part as follows:

'A bank may accept the transfer of a loan from another bank, or permit the transfer of a loan between borrowers, without following the requirements of this regulation as to the making of a loan, provided the loan is not increased and the collateral for the loan is not changed; * * *'

"The first question presented in connection with this provision is whether it should be considered that a bank accepts the transfer of a loan if it makes a loan to a customer to enable him to reduce or retire existing indebtedness at another bank or to replace funds which the borrower has used to reduce or retire indebtedness at another bank.

"It is the view of the Board that a transaction such as that described should not be considered to be the accepting of the transfer of a loan pursuant to section 3(e). The provisions of section 3(e) apply only to a loan which is transferred by the process of payment by the transferee bank to the transferor bank against the receipt of the proper collateral, and a transaction such as that described above does not come within the provisions of the section.

"2. The Indebtedness and Collateral to Be Transferred.

"Questions also are raised as to the indebtedness and the collateral to be transferred. In general, two different types of cases arise in this connection, one relating to indebtedness incurred on or after May 1, 1936, and the other to indebtedness incurred prior to that date. Since the inquiry did not present any question as to the requirements that might affect the transferor bank, the two types of cases will be examined only with respect to the requirements that affect the transferee bank.

"Nonexcepted loans made for the designated purpose on or after May 1, 1936. - The first type of case involves indebtedness that is for the purpose of purchasing or carrying stocks registered on a national securities exchange, that is not excepted by section 2 of the regulation, and that was incurred

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"On or after May 1, 1936. Although the transferor bank may have treated certain portions of this indebtedness as separate loans for certain purposes, the agreement between the customer and the bank is such that all the collateral for any of the described indebtedness secures all such indebtedness.

"In this connection, it is to be noted that the second paragraph of section 1 of Regulation U provides that:

'* * * the entire indebtedness of any borrower to any bank incurred on or after May 1, 1936, for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this regulation.'

"In view of this provision, it is evident that the regulation contemplates that, in certain connections, the aggregate of the described indebtedness and all the collateral that secures that indebtedness should be considered a unit, regardless of whether or not the transferor bank may have treated a portion of such indebtedness as a separate loan and assigned particular collateral to that portion. It is clear that it would be permissible under section 3(e) for a transferee bank to accept the transfer of the aggregate of such indebtedness accompanied by the aggregate collateral, but there is presented the additional question of whether it is permissible under section 3(e) to accept the transfer of a portion of this aggregate indebtedness accompanied by a proportionate part of the aggregate collateral.

"It is the opinion of the Board that if a bank accepts a transfer of a portion of the aggregate indebtedness the bank may properly be considered to have accepted a transfer of a loan within the meaning of section 3(e), and that if the transferred indebtedness is accompanied by its proper portion of the collateral so that the ratio of loan value to indebtedness is the same with the transferred portion of the indebtedness and transferred portion of the collateral as with the aggregate indebtedness and aggregate collateral, it should properly be considered that 'the collateral for the loan is not changed.' If a transfer meets both these conditions and the indebtedness is not increased, the transferee bank may, pursuant to section 3(e) of the regulation, accept the transfer 'without following the requirements of this regulation as to the making of a loan.'

"Nonexcepted loans made for the designated purpose before May 1, 1936. - The other type of case involves indebtedness that is for the purpose of purchasing or carrying registered stocks, that is not excepted by section 2 of the regulation, but that was incurred prior to May 1, 1936.

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"It will be noted that the provision of section 1 of the regulation quoted above with respect to the treatment of aggregate indebtedness and aggregate collateral as a unit does not apply to indebtedness incurred prior to May 1, 1936. In the case of such an old loan, therefore, identification of the loan and the collateral therefor, all or part of which are to be transferred, should be made on the basis of the practice which the transferor bank and the borrower have consistently followed in good faith in dealing with the loan. Any indebtedness which has been treated as constituting a single loan, and collateral which has been treated as having loan value for the purposes of that loan and as not having loan value for other purposes, should be considered as a unit, and they should be so considered without regard to a customers' agreement under which collateral for one loan secures another.

"If the entire amount of such an old loan thus identified is to be accepted by the transferee bank pursuant to section 3(e), it should be accompanied by all the collateral which, as indicated above, has been treated as having loan value for the purposes of the loan and as not having loan value for other purposes. If a portion of such a loan is to be accepted by the transferee bank pursuant to section 3(e), it should be accompanied by the proper proportion of the collateral which has been so treated, so that the collateral would not be changed, i.e., the ratio of loan value to indebtedness is the same with the transferred portion of the indebtedness and transferred portion of the collateral as with the indebtedness originally treated as a single loan and the collateral treated as having loan value only for the purposes of that loan.

"3. Determination of Facts Regarding Transfer of Loan.

"A question is also presented as to the method which a transferee bank may use to determine whether or not the conditions necessary for the transfer of a loan pursuant to section 3(e) are being followed. Specifically, the question is raised whether the transferee bank may rely upon a signed statement of the borrower or the transferor bank which it accepts in good faith to determine these facts.

"As in the case of a number of other facts that are relevant to operations under the regulation, no specific method of determining these facts is required. The requirement is that the bank operate diligently and in entire good faith, and in doing this it may utilize various methods for ascertaining the facts in particular cases. As one method of determining the facts in connection with the transfer of a loan, a transferee bank would be justified in relying upon a signed statement of

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"the borrower or the transferor bank which the transferee bank accepts in good faith."

Approved unanimously.

Letter to Mr. E. F. Lawrence, Assistant Trust Officer, Crocker First National Bank of San Francisco, San Francisco, California, reading as follows:

"This refers to your letter of July 8, 1937, to Governor Ransom, requesting that you be furnished with any data available on the subject of 'Trends in Trust Investments.'

"In this connection you referred to the statement in the July, 1937, issue of The Burroughs Clearing House to the effect that the Board has had pending a set of tentative regulations dealing with trust funds held by banks. That article was apparently inspired by the fact that the Board has been giving consideration to the problem of common or co-mingled trust funds and has been studying recommendations as to rules and regulations for common trust funds which have been submitted to it by the special committee on Common Trust Funds of the Trust Division of the American Bankers Association.

"The Board has not undertaken any revision of its Regulation F, which deals with trust powers of national banks, and, as you know, that regulation does not undertake to specify what classes of securities or individual issues are appropriate for trust investment, nor in what manner or to what extent the investments of trust accounts should be diversified.

"It is regretted that the Board does not have available for distribution any information on the subject about which you inquired. As you know, the problems involved in the investment of trust funds, particularly in the light of changing conditions, have been a subject of great interest to trust men during the past few years, and many articles regarding the matter have been published, although the subject is far from exhausted and remains a matter of primary concern to those charged with fiduciary responsibilities."

Approved unanimously.

Memorandum dated July 12, 1937, from Mr. Paulger, Chief of the Division of Examinations, recommending, for the reason stated in the memorandum, that an addition of \$200 be made to the budget of the Division

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of Examinations for 1937 for the purchase of equipment during the remainder of the current year.

Approved unanimously.

Thereupon the meeting adjourned.

Wester Morie
Secretary.

Approved:

Frank J. Moran
Vice Chairman.