A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 4, 1937, at 11:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 3, 1937, were approved unanimously.

Telegram to Mr. Young, President of the Federal Reserve Bank of Boston, 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.

Memorandum dated August 3, 1937, from Mr. Morrill recommending the appointment of Mr. Charles D. Lindamood as a general utility engineer in the Board's new building, with salary at the rate of $2,000 per annum, effective as soon as his services may be required after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 3, 1937, from Mr. Morrill recommending the appointment of Mr. Charles W. Storm as a carpenter at the

Board's new building, with salary at the rate of $1,800 per annum, effective as soon as his services may be required after having passed satisfactorily the usual physical examination.

Approved unanimously.

There was submitted a recommendation from Messrs. Spurney and Koppang that the following persons, who had been selected in accordance with the authority granted by the Board on July 12, 1937, and who had passed satisfactory physical examinations, be appointed as charwomen in the Board's new building, each with salary at the rate of 50¢ per hour, effective as of August 4, 1937:

Mrs. Irma L. Brannon
Mrs. Minnie C. Pruett
Mrs. Helen S. Nutwell

Approved unanimously.

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

"This refers to Mr. Taylor's letter of July 16, 1937, relating to an inquiry from The First National Bank and Trust Company of Lexington, Lexington, Kentucky, concerning the application of section 11(a) of the Board's Regulation F, the pertinent provisions of which read as follows:

'Funds received or held by a national bank as fiduciary shall not be invested in stocks or obligations of * * * the bank or its directors * * *.'

"It appears that the bank was recently appointed co-trustee of a trust which has been in existence for a number of years and that among the assets of the trust received by the bank was a mortgage note of one of the bank's directors which matures in August, 1937. The bank inquires whether the renewal of the note would violate Regulation F.

"The above-quoted provisions of Regulation F relate to the investment of trust funds and do not prohibit the retention of assets received by a national bank as a part of a trust estate when it becomes trustee. Further, in accordance with the principles applied in a recent ruling relating to an analogous situation, the renewal of a note so received as a part of a trust estate should not be considered as an investment of trust funds within the meaning of such requirement of the regulation (see ruling in Federal Reserve Bulletin for May, 1937, at page 392). Therefore, it is the view of the Board that the regulation itself does not prevent the renewal of the note referred to above; it being understood, of course, that the investment is otherwise a proper investment of the trust in view of all the circumstances relating thereto and such investment is not otherwise subject to criticism.

"However, the bank's attention should be called to certain provisions of law which may have some bearing on the question whether the note should be renewed. Section 11(k) of the Federal Reserve Act provides that it shall be unlawful for a national bank to lend trust funds to any officer, director, or employee of the bank and makes it a felony for any officer, director, or employee to make or receive such loan. Since the enforcement of such statutory provisions falls within the jurisdiction of the Department of Justice, the Board cannot undertake to express any opinion concerning their interpretation and their application to the renewal of the note in question."

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of June 9, 1937, and its inclosure, relating to an inquiry from The United States National Bank at Omaha, Omaha, Nebraska, concerning the application of section 11(a) of the Board's Regulation F.

"The bank inquires whether such section prohibits the bank from investing trust funds in real estate mortgage loans purchased through Byron Reed Company, Inc., of which Mr. A. L. Reed, a director of the bank, is chairman of the board of directors. It is stated that such loans are not obligations of Byron Reed Company, Inc.; that proposed loans are submitted to the trust department of the bank before commitment

"and closed only after its approval; and that they are secured by first mortgages on real estate of a sufficient appraised value to meet the requirements of the Nebraska law. In the latest report of examination of the bank the investments in such mortgage loans which had been made since June 1, 1936, were criticized as being in violation of the regulation.

"The bank also inquires whether the above-mentioned provisions of the regulation apply to 'general market and listed bonds,' mentioning obligations of Nebraska Power Company and Chicago, Burlington & Quincy Railroad Company. It appears that a director of the bank is a director and vice president and general manager of Nebraska Power Company and that another director is a director and executive vice president of Chicago, Burlington & Quincy Railroad Company. It is stated that the bank has in the past purchased obligations of such companies for trust accounts and that such obligations are on the bank's list for future investments.

"The views expressed by the Board in its letter of this date to you, relating to a similar inquiry from The Omaha National Bank, Omaha, Nebraska, are equally applicable in connection with this inquiry and it is suggested that you advise The United States National Bank at Omaha in accordance therewith. In addition, the bank should be advised that the fact that bonds are listed on a securities exchange or possess a general market does not make the pertinent provisions of the regulation inapplicable thereto, although it may have a bearing on the question whether the interest of officers, directors, or employees of the bank in the obligor is such as might affect the exercise of the best judgment of the management of the bank in investing trust funds in such bonds.

"Further, the Board feels that it should specially call attention to the fact that the mortgage loans in question quite clearly constitute 'property acquired from' Byron Reed Company, Inc., within the meaning of the regulation, and that, even though such loans are otherwise proper trust investments, their purchase is forbidden, if, as apparently may be the case, Byron Reed Company, Inc. is an 'interest' of Mr. A. L. Reed within the spirit and purposes of the regulation."

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of June 9, 1937, and its inclosures, relating to an inquiry from The Omaha National Bank, Omaha, Nebraska, concerning the application of section 11(a) of the Board's Regulation F, the pertinent provisions of which read as follows:

> 'Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or <u>its directors, officers, or employees, or their interests</u>, * * *.'

"It appears that in the latest report of examination of the bank the examiner listed certain trust investments as investments in concerns in which directors are interested and criticized those purchased since June 1, 1936, as having been purchased in violation of the above-quoted provisions of Regulation F which became effective on that date. The investments listed are stocks or obligations of Fairmont Creamery Company, Nebraska Power Company, Union Pacific Railroad Company, St. Joseph and Grand Island Railway Company, and Oregon-Washington Railroad and Navigation Company. The bank inquires whether the investment of trust funds by it in such securities is prohibited by Regulation F.

"It appears that one director of the bank is a director and executive vice president of Fairmont Creamery Company; that one director is a director of Nebraska Power Company and, until recently, another was a director of that company; that one director is a director and president of each of the railroad companies; that the securities of the railroad companies are listed on the New York Stock Exchange and possess a general market; and that the securities of the other companies are not listed on any securities exchange but it is stated that they are not closely held and possess a fairly active local market. It is understood from a letter received from the president of the bank that none of the securities is ever purchased from the issuing corporation or through any of the directors of the bank and that such securities are purchased entirely through brokers or bond houses of independent and national standing.

"The purpose of the above-quoted provisions of Regulation F is explained in a footnote which reads, in part, as follows:

> '* * * this requirement contemplates that the national bank will not invest trust funds in the obligations of any organization in which officers, directors or employees of the bank have such an interest as might affect the exercise of the best

"'judgment of the management of the bank in investing trust funds.'

While the footnote refers only to obligations of organizations in which officers, directors, or employees are interested, the same principle is applicable in the case of investments in stocks of, or property acquired from, such organizations.

"In determining whether particular investments are prohibited, it is necessary to consider all of the facts and circumstances of each case. For example, the mere fact that a director of a national bank is director of a corporation does not necessarily make it a violation of the regulation for the bank to invest trust funds in stocks or obligations of the corporation. On the other hand, such an investment may not be properly made unless it is clear that, in view of all of the facts and circumstances of the case, the interest of the director in the corporation is not such as might affect the exercise of the best judgment of the management of the bank in investing the trust funds. An investment which may otherwise be entirely proper, or even highly desirable, may be in violation of the above-quoted provisions of the Board's regulation, and the well-established principles of sound trust administration upon which they are based, because conflicts of interest are involved; transactions in which trustees have conflicting interests are condemned as a class because there is grave danger of abuses.

"The Board feels that, as a general proposition, it is undesirable for it to attempt to rule upon specific cases of the kind presented by this inquiry, both because of the difficulty of ascertaining and accurately stating all of the facts and circumstances involved and because such rulings tend to destroy the intended flexibility of the pertinent language of the regulation. It is felt that this is a matter which should be left primarily to the good faith and sound judgment of the banks and that ordinarily they must determine for themselves whether particular transactions are in violation of the spirit and purpose of this requirement of the regulation.

"It is suggested that the inclosed copy of this letter be furnished to The Omaha National Bank, together with any additional comments which you may wish to make."

Approved unanimously.

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

"Reference is made to your letter of July 29, 1937, relating to the affiliation between The Blackshear Bank, Blackshear, Georgia, and A. P. Brantley Company.

"It has been noted that the bank now concedes that the A. P. Brantley Company is an affiliate within the meaning of the Banking Act of 1933, that the company owns a majority of the stock of the Blackshear Manufacturing Company, The Manor Trading Company, Wayne Trading Company and Pierce Trading Company, and that, accordingly, such companies have been determined to be affiliates of the bank.

"The report of examination of The Blackshear Bank of May 22, 1937 showed that the Pierce Trading Company was indebted on an unsecured basis to the bank in the amount of $7,500 which, according to subsequent information, was later increased to $9,500 and subsequently reduced to $7,000, which is less than 10 per centum of the capital and surplus of the bank. You report also that you have been advised that the loan to the Pierce Trading Company would be promptly secured by collateral which conforms to the provisions of section 23A of the Federal Reserve Act. It is understood that you have discussed with officers of the bank the situation with respect to affiliates and that all parties at interest now understand the provisions of law and of the Board's regulations as regards loans to, and reports of, affiliates and have given you assurances that such provisions of law and the Board's regulations will be strictly followed in the future.

"The Board concurs in your opinion that apparently no useful purpose would be served by requiring the submission of the report of the Pierce Trading Company as of June 30, 1937, or by the publication of such report, and, therefore, will make no requirements concerning reports of affiliates of the bank which should have been furnished or published heretofore."

Approved unanimously.

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

"This refers to your letter of July 24, 1937, and its inclosures, relating to the status of Knudson Investment Company, Brigham City, Utah, as a holding company affiliate under the provisions of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

"The Board has determined that Knudson Investment Company is not engaged, directly or indirectly, as a business

"in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and, accordingly, that corporation is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Inclosed herewith is a letter to Knudson Investment Company advising it concerning the Board's action in this matter. Please transmit the letter to that corporation. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection, it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with a letter to the Knudson Investment Company, Brigham City, Utah, reading as follows:

"This refers to your corporation's request that the Board 'declare said corporation not to be included within the term "holding company affiliate" and exempt it from the requirements made of holding company affiliates.'

"The Board understands that your corporation owns and controls 1,013 of the 2,000 outstanding shares of stock of State Security Bank, Brigham City, Utah, but it does not own or control any stock of, or manage or control, any other bank. In view of these facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, your corporation is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. However, under the law, the Board's action does not in any way effect the status of your corporation as a holding company affiliate for the purposes of section 23A of the Federal Reserve Act.

"If your corporation should at any time own or control a substantial portion of the stock of, or manage or control, more than one bank, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

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Letter to The Honorable, The Secretary of State, reading as follows:

"This refers to the previous correspondence with the Department of State regarding the sealed box and locked army field safe, said to contain Mexican and United States coin and currency, held in custody at the New Orleans Branch of the Federal Reserve Bank of Atlanta since December 1923.

"In reply to the Board's letter of April 25, 1934, requesting advice as to where the authority over the box and safe is vested and what disposition should be made of them, Mr. Moore, Assistant Secretary, stated that the Department of State was giving careful consideration to the disposition of the funds, said to be funds collected during the occupation of Veracruz in 1914 and which were in the hands of the War Department as custodian, and that, in the absence of any objection, it was believed advisable that the New Orleans Branch continue to store the funds pending decision as to their final disposition.

"The management of the Federal Reserve Bank has again raised the question as to the proper disposition of the boxes. The Reserve Bank is naturally reluctant to continue to hold in custody sealed boxes for extended periods of time, and is strongly of the opinion either that the safe and box should be withdrawn from the custody of the bank by the proper authority or that the bank should be authorized to open the safe and box in the presence of proper witnesses and take the contents into custody where they would be subject to periodic examination and audit.

"It will be appreciated if you will advise the Board of Governors whether the present unsatisfactory situation with respect to the custody of the boxes may not be adjusted in accordance with the wishes of the Federal Reserve Bank."

Approved unanimously.

Letter to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letters of July 27 and July 28, 1937 regarding the application of section 8 of the Clayton Act to the service of certain persons as officers and directors of First National Bank, Tampa, Florida, and Broadway National Bank, Tampa, Florida.

"It is understood that Broadway National Bank is the

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"name under which Latin American Bank of Ybor City converted into a national banking association, and that Ybor City is the Spanish section of Tampa, being located within the city limits. On August 23, 1935, the date of enactment of the Banking Act of 1935, Messrs. E. P. Taliaferro, H. T. Lykes, R. A. Liggett and V. H. Northcutt were serving both First National Bank of Tampa and Latin American Bank of Ybor City as officers or directors under permits issued by the Board pursuant to section 8 of the Clayton Act as that provision read before its amendment by the Banking Act of 1935. When Latin American Bank converted into a national bank these gentlemen were still serving pursuant to the following provision of the amended section 8:

'Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.'

"The Board concurs in your opinion that for the purposes of the present case Broadway National Bank, the converted national bank, is the same institution as Latin American Bank of Ybor City, the earlier State bank, and that, therefore, in the circumstances the provision quoted above permits each of the gentlemen named above to continue his relations with the converted national bank and First National Bank until February 1, 1939 just as if the conversion had not occurred."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.