

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, August 5, 1937, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
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 4, 1937, were approved unanimously.

Telegrams to Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, and Messrs. McAdams and Sargent, Secretaries of the Federal Reserve Banks of Kansas City and San Francisco, respectively, stating that the Board approves the establishment without change by the banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated August 5, 1937, from Mr. Morrill recommending the appointment of Mr. Umberto F. Salvetti as a porter in the Board's new building, with salary at the rate of \$1,080 per annum, effective as soon as his services may be required and subject to his passing satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 4, 1937, from Mr. Smead, Chief of the Division of Bank Operations, recommending the appointment on a temporary basis for a period of three months effective as of August 10, 1937, of

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Mr. Thomas P. Cribbins as a statistical clerk in the Division, with salary at the rate of \$135 per month.

Approved unanimously.

Memorandum dated August 5, 1937, from Mr. Morrill recommending the transfer, effective immediately, of Lafayette Washington, Rutledge Wheeler and William E. Pinn, messengers, to duty as porters and laborers under the building manager at the Board's new building, with no change in the present salaries of Washington and Wheeler and with salary at the rate of \$1,080 per annum for Pinn effective as of August 15, 1937. The memorandum also recommended the appointment of James H. Newton and Jerry L. Williams as porters and laborers in the new building, each with salary at the rate of \$1,080 per annum, effective as soon as their 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 the dates shown:

Mrs. Pearl Johnson	August 5	Mrs. Josephine Paradise	August 5
Mrs. Libbie L. Spicer	" "	Mrs. Frances I. Miller	" "
Mrs. Madalena Bertolini	" "	Mrs. Mary M. Diegelman	" "
Mrs. Clara Cooke	" 6	Mrs. Lulu Mae Griffin	" "
Mrs. Sarah F. Corbin	" "	Mrs. Eunice Lamm	" 6
Mrs. Alene Carroll	" "	Mrs. Mabel L. Jones	" "
Mrs. Rita Rucker	" "	Mrs. Margaret L. Sargent	" 7
		Mrs. Lillian Schroeder	" "

Approved unanimously.

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Letter to the board of directors of the "Citizens State Bank", Columbia City, Indiana, 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 Chicago:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Within one year from the date of admission to membership, such bank shall increase the aggregate of its capital and surplus by not less than \$50,000.
- "9. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$1,724.65, as shown in the report of examination of such bank as of April 12, 1937, made by an examiner for the Federal Reserve Bank of Chicago."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Citizens State Bank', Columbia City, Indiana, 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 Director, Department of Financial Institutions of the State of Indiana for his information.

"It has been noted that in the event the bank completes its membership, its attention will be called to the fact that savings deposits which do not conform to the provisions of the Board's Regulation Q should be carried in some other manner, and a request will be made that within a reasonable time the loans which are in excess of the limits prescribed

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"by State laws be reduced to within such limits.

"It is understood that the laws of the State of Indiana prohibit the bank from pledging its assets as security for trust funds deposited in its banking department and that trust funds so deposited are preferred claims in event of liquidation of the bank. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization previously granted by the Board with which you are familiar."

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

"Receipt is acknowledged of your letters of July 27 and July 29, 1937, with regard to the proposal of the Peoples-Pittsburgh Trust Company, Pittsburgh, Pennsylvania, to take over 51 shares of stock of the Dormont Savings and Trust Company, Pittsburgh, Pennsylvania, from the 'Alexander C. Robinson and Louis H. Gethoefer trust'.

"It is understood that the Peoples-Pittsburgh Trust Company is the sole beneficiary of the trust, and that, except for a few odds and ends of securities, including the 51 shares of stock of the Dormont Savings and Trust Company, the trust has been fully liquidated. It is understood also that the Peoples-Pittsburgh Trust Company now owns 1,553 shares of the total issue of 2,500 shares of the stock of the Dormont Savings and Trust Company, that the transfer of the 51 shares to the Peoples-Pittsburgh Trust Company will be in the nature of a liquidating dividend, and that it will not be necessary for the member bank to use any of its funds or other assets in order to acquire such 51 shares. Upon the basis of this understanding, it does not appear that the proposed transaction will be in violation of section 23A of the Federal Reserve Act or section 5136 of the Revised Statutes or of any condition of membership to which the Peoples-Pittsburgh Trust Company is subject. The Board, therefore, will interpose no objection to the proposed transaction."

Approved unanimously.

Letter to the "American Holding Corporation", Chicago, Illinois, reading as follows:

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"This refers to the application of your corporation for a voting permit entitling it to vote the stock which it owns or controls of 'American National Bank and Trust Company of Chicago', Chicago, Illinois; to the general voting permit issued to your corporation on January 4, 1935; and to recent correspondence relating to the holding company affiliate status of your corporation.

"It is understood that American National Bank and Trust Company of Chicago has outstanding 10,000 shares of common stock and 6,500 shares of preferred stock; that 9,281 shares of common stock and 6,500 shares of preferred stock were voted at the preceding election of directors; and that your corporation owns or controls 6,250 shares of the common stock. On the basis of such facts, it does not appear that your corporation is now a holding company affiliate of American National Bank and Trust Company of Chicago for any purposes under the definition contained in section 2(c) of the Banking Act of 1933.

"However, it is understood that, in view of proposed changes in the capital structure of American National Bank and Trust Company of Chicago which may result in your corporation again becoming a holding company affiliate of such bank, it is desired that the Board determine 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. In view of the fact that it is understood that your corporation does not own or control any stock of, or manage or control, any bank other than American National Bank and Trust Company of Chicago, the Board has made such a determination with respect to your corporation. If, however, 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 of the matter at any time on the basis of the then existing facts.

"As you know, section 2(c) of the Banking Act of 1933 provides that the term 'holding company affiliate' shall not include (except for the purposes of section 23A of the Federal Reserve Act) any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. In view of the fact that such a determination has been made with respect to your corporation, the general

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"voting permit heretofore issued to your corporation is no longer effective. If your corporation is later determined by the Board to be a holding company affiliate subject to the provisions of law relating to voting permits, it will be necessary for your corporation to obtain a new voting permit before the stock which it then owns or controls of any subsidiary member bank lawfully may be voted."

Approved unanimously, for transmission
through the Federal Reserve Bank of Chicago.

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

"Reference is made to your letter of July 26, 1937 with which you inclosed a copy of a letter from Mr. E. M. Wright, National Bank Examiner, Portland, Oregon, presenting an inquiry with reference to Regulation U.

"It is understood that the question presented involves a loan that was made prior to May 1, 1936 for the purpose of purchasing or carrying registered stocks and was secured by such stocks. After this date cash was substituted for an equal market value of the stock collateral, and later this cash was withdrawn on the deposit of an equal market value of registered stocks. The question raised is whether the cash can be considered as collateral or whether it should be considered that the deposit of cash is the liquidation of a portion of the old loan so that the withdrawal of the cash would constitute the making of a new loan subject to the regulation.

"You refer to the ruling forwarded with the Board's letter (X-9655) of July 20, 1936 to the effect that a cashier's check might be treated as collateral for a loan made prior to May 1, 1936 and that, therefore, securities might be substituted for the cashier's check without a new loan being made that would be subject to the regulation. It is the view of the Board that the same principle applies to the present case, and that it would be proper to treat the cash as collateral for the loan so that when the cash was subsequently withdrawn there would be merely a change in the collateral for a loan originally made prior to May 1, 1936 rather than the making of a new loan subject to the regulation.

"In this connection it is to be noted, of course, that after Amendment No. 3 of Regulation U becomes effective on September 1, 1937, loans made before May 1, 1936 will be subject to the regulation and that thus the effect of treating cash as collateral for such a loan will be considerably altered. If cash should be held as collateral for a loan

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"subject to the regulation, under the first paragraph of section 1 of the regulation the cash would obviously have a much higher loan value than stocks and, therefore, could not be withdrawn against an equal market value of stocks if the withdrawal would create or increase an excess of the loan over the maximum loan value of the collateral."

Approved unanimously.

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

"This refers to your letter of June 29, 1937 presenting the question whether member banks in New York City may, in computing required reserve balances, deduct from their gross demand deposits matured bonds and coupons payable in New York City which have been received by them and which are still in the process of collection. This involves the question whether such matured bonds and coupons may be considered as 'cash items in process of collection' within the meaning of section 1(g) of Regulation D so as to be deductible from gross demand deposits under section 2(b) of the regulation.

"From your letter it is understood that New York City banks customarily give immediate deposit credit, or one day deferred deposit credit, for matured bonds and coupons payable in New York City whether received over-the-counter or through the mails from their depositors and bank correspondents; that such items are customarily received from correspondent banks in cash letters; that after such cash letters have been proved, the matured bonds and coupons therein are sorted according to paying agents (and thereafter according to issues and denominations) preparatory to presentation; that where the paying agents are members of the New York Clearing House Association the coupons are cleared through the Clearing House, but the matured bonds are presented over-the-counter; that where the paying agents are not members of the Association, both the matured bonds and coupons are presented over-the-counter; that in the case of items cleared through the Clearing House the presenting bank receives a due bill on the day of clearing which due bill is cleared on the following day in the check clearings; that in the case of items presented over-the-counter to the paying agent, a clearing house check is received the same day in payment for the items, which check is cleared the next day; and that the due bills given for the coupons presented through the Clearing House and the clearing house checks given for the bonds and coupons presented over-the-counter are

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"themselves deductible from gross demand deposits.

"It is also understood that your bank handles matured coupons forwarded by your member banks and direct sending banks as cash items, giving one day deferred deposit credit therefor, and in some instances handles matured bonds on the above basis and in other instances handles matured bonds as non-cash items. We further understand that the question presented does not refer to maturing bonds and coupons.

"You are advised that, after considering this matter in the light of the facts stated above, the Board of Governors is of the opinion that matured bonds and coupons, to the extent that they are treated and handled by member banks as cash items substantially in accord with the practice described, may properly be included by such banks in 'such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items', within the meaning of section 1(g)(3) of Regulation D, and deducted by such banks from the amount of their gross demand deposits in computing their required reserves."

Approved unanimously.

Thereupon the meeting adjourned.

Chester H. Moring
Secretary.

Approved:

W. H. Steeles
Chairman.