

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 14, 1937, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
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. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Leonard, Assistant Chief of the Division of Examinations

There was presented a draft of Regulation "A", "Discounts for and Advances to Member Banks by Federal Reserve Banks", in the form in which it was revised following consideration by the Board's staff of the comments and suggestions received from the Federal reserve banks in response to the Board's letter of July 30, 1937 (R-41). Copies of the revised draft and of the letters received from the Federal reserve banks had been furnished to the members of the Board prior to this meeting.

Consideration was given to the various changes proposed by

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the revised draft and particularly to the question what the Board's position should be with respect to marginal collateral required by the Federal reserve banks.

At 1:00 p.m. the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the morning session, except that Mr. Blattner, Assistant Director of the Division of Research and Statistics, was also in attendance.

Consideration was given to the question whether the Board's position with respect to additional or marginal collateral and credit extended on the security of obligations of the United States should be set forth in a separate letter which would be published with the regulation or whether provisions covering these matters should be included in the regulation. It was agreed that the idea of a separate letter should be abandoned and that the two matters should be covered in the regulation in the form contained in subsections 3(d) and 3(e) of the regulation as set forth below.

At the conclusion of the discussion, upon motion of Mr. Ransom, Regulation "A", "Discounts for and Advances to Member Banks by Federal Reserve Banks", was approved and adopted by unanimous vote in the following form, to become effective October 1, 1937. In taking this action it was understood that the regulation would be printed and sent to the Federal reserve banks, that it would be released by the Federal reserve banks and the Board for publication on September 27, 1937, and that copies of the printed regulation would be sent directly by the Board to all member banks:

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"REGULATION A
Revised effective October 1, 1937
(Superseding Regulation A, Series of 1930)

"DISCOUNTS FOR AND ADVANCES TO MEMBER BANKS BY FEDERAL
RESERVE BANKS

"INTRODUCTION

"This regulation is based upon and issued pursuant to various provisions of the Federal Reserve Act, the most important of which, together with related provisions of law, are published in the Appendix hereto. The regulation is applicable to the following forms of borrowing from a Federal Reserve bank: (1) discounts for member banks of commercial, agricultural and industrial paper and bankers' acceptances; (2) advances to member banks on their own notes secured by paper eligible for discount or purchase by Federal Reserve banks, by obligations of the United States or certain corporations owned by the United States, or by other security which is satisfactory to the Federal Reserve bank; and (3) discounts for Federal Intermediate Credit banks.

"SECTION 1. DISCOUNT OF NOTES, DRAFTS AND BILLS
FOR MEMBER BANKS¹

"(a) Commercial, agricultural and industrial paper. - Any Federal Reserve bank may discount for any of its member banks, under authority of sections 13 and 13a of the Federal Reserve Act, any note, draft, or bill of exchange which meets the following requirements:

- (1) It must be a negotiable note, draft, or bill of exchange, bearing the indorsement of a member bank, which has been issued or drawn, or the proceeds of which have been used or are to be used, in

¹Even though paper is not eligible for discount by a Federal Reserve bank for a member bank under the provisions of this regulation, it may be used as security for an advance by a Federal Reserve bank to a member bank under the terms and conditions of subsection (c) and subsection (d) of section 2 of this regulation if it constitutes security satisfactory to the Federal Reserve bank. In addition to the classes of paper mentioned in section 1 of this regulation a Federal Reserve bank may discount bankers' acceptances in accordance with the provisions of section 6 of this regulation.

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"producing, purchasing, carrying or marketing goods² in one or more of the steps of the process of production, manufacture, or distribution, or in meeting current operating expenses of a commercial, agricultural or industrial business, or for the purpose of carrying or trading in direct obligations of the United States (i.e. bonds, notes, Treasury bills or certificates of indebtedness of the United States);

(2) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings or machinery, or for any other fixed capital purpose;

(3) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for transactions of a purely speculative character or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities except direct obligations of the United States (i.e. bonds, notes, Treasury bills or certificates of indebtedness of the United States);

(4) It must have a maturity at the time of discount of not exceeding ninety days, exclusive of days of grace, except that agricultural paper as defined below in this section of this regulation may have a maturity of not exceeding nine months, exclusive of days of grace; but this requirement is not applicable with respect to bills of exchange payable at sight or on demand of the kind described in subsection (b) of this section.

"(b) Bills of exchange payable at sight or on demand. - Any Federal Reserve bank may discount for any of its member banks, under authority of section 13 of the Federal Reserve Act, negotiable bills of exchange payable at sight or on demand which (1) bear the indorsement of a member bank, (2) grow out of the domestic shipment or the exportation of non-perishable, readily marketable staples,³ and (3) are secured by bills of lading or other shipping documents conveying or

²As used in this regulation the word 'goods' shall be construed to include goods, wares, merchandise, or agricultural products, including livestock.

³A readily marketable staple within the meaning of this regulation means an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

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"securing title to such staples. All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer instructs that they be held until arrival of such staples at their destination, in which event they must be presented for payment within a reasonable time after notice of such arrival has been received. In no event shall any such bill be held by or for the account of a Federal Reserve bank for a period in excess of ninety days.

"(c) Construction loans. - In addition to paper of the kinds specified above, any Federal Reserve bank may discount for any of its member banks, under authority of section 24 of the Federal Reserve Act, a negotiable note which (1) represents a loan made to finance the construction of a residential or a farm building whether or not secured by lien upon real estate, (2) is indorsed by such member bank, (3) is accompanied by a valid and binding agreement, entered into by a person⁴ acceptable to the discounting Federal Reserve bank, requiring such person to advance the full amount of the loan upon the completion of the construction of such residential or farm building, and (4) matures not more than six months from the date such loan was made and not more than ninety days from the date of such discount by such Federal Reserve bank, exclusive of days of grace.

"(d) Agricultural paper. - Agricultural paper, within the meaning of this regulation, is a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of livestock.

"(e) Paper of cooperative marketing associations. - Notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose within the meaning of the foregoing definition of 'agricultural paper', if the proceeds thereof have been or are to be used by such association in making advances to any members thereof for an

⁴Such person may be the member bank offering the note for discount or any other individual, partnership, association or corporation.

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"agricultural purpose, in making payments to any members thereof on account of agricultural products delivered by such members to the association, or to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members. In addition, any other paper of such associations which complies with the applicable requirements of this regulation may be discounted. Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, is not eligible for discount, even though such warehouses or other property is to be used exclusively in connection with the ordinary operations of the association.

"(f) Factors' paper. - Notes, drafts, and bills of exchange of factors issued as such for the purpose of making advances exclusively to producers of staple agricultural products in their raw state are eligible for discount with maturities not in excess of ninety days, exclusive of days of grace.

"(g) Collateral securing discounted paper. - Any note, draft, or bill of exchange eligible for discount is not rendered ineligible because it is secured by the pledge of goods or collateral of any nature, including paper ineligible for discount.

"(h) Determination of eligibility. - A Federal Reserve bank shall take such steps as may be necessary to satisfy itself as to the eligibility of any paper offered for discount. Compliance of paper with the provisions of paragraph (2) of subsection (a) of this section may be evidenced by a statement which adequately reflects the borrower's financial worth and evidences a reasonable excess of quick assets over current liabilities, or such compliance may be evidenced in any other manner satisfactory to the Federal Reserve bank.

"(i) Limitations. - The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, discounted for any member bank shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national bank under the terms of section 5200

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"of the Revised Statutes of the United States, as amended.⁵ The law forbids a Federal Reserve bank to discount for any State member bank notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State member bank in an amount greater than that which could be borrowed lawfully from such State member bank were it a national bank.

"SECTION 2. ADVANCES TO MEMBER BANKS

"(a) Advances on eligible paper. - Any Federal Reserve bank may make advances, under authority of section 13 of the Federal Reserve Act, to any of its member banks for periods not exceeding ninety days on the promissory note of such member bank secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for discount by Federal Reserve banks under the provisions of this regulation or for purchase by such banks under the provisions of Regulation B.

"(b) Advances on Government obligations. - Any Federal Reserve bank may make advances, under authority of section 13 of the Federal Reserve Act, to any of its member banks for periods not exceeding fifteen days⁶ on the promissory note of such member bank secured (1) by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or (2) by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit banks having maturities of not exceeding six months from the date of the advance, or (3) by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act and guaranteed both as to principal and interest by the United States, or (4) by the deposit or pledge of Home Owners' Loan Corporation bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and guaranteed both as to principal and interest by the United States.

⁵Section 5200 of the Revised Statutes of the United States is printed in the Appendix to this regulation together with a tabular analysis of the section prepared in the office of the Comptroller of the Currency.

⁶However, under the provisions of the last paragraph of section 13 of the Federal Reserve Act, any Federal Reserve bank may make advances for periods not exceeding ninety days to individuals, partnerships, or corporations (including banks) on their promissory notes secured by direct obligations of the United States at rates fixed for the purpose.

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"(c) Advances on other security under section 10(b) of the Federal Reserve Act. - Subject to the provisions of subsection (d) of this section, any Federal Reserve bank may make advances, under authority of section 10(b) of the Federal Reserve Act, to any of its member banks upon the latter's promissory note secured to the satisfaction of such Federal Reserve bank. The rate on advances made under the provisions of this subsection shall in no event be less than one-half of 1 per cent per annum higher than the highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act in effect at such Federal Reserve bank. Such an advance must be evidenced by the promissory note of such member bank payable either (1) on a definite date not more than four months after the date of such advance, or (2) at the option of the holder on or before a definite date not more than four months after the date of such advance.

"(d) Kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act. - A Federal Reserve bank may accept as security for an advance made under the provisions of subsection (c) of this section assets of any of the classes enumerated below which are satisfactory to the Federal Reserve bank, or paper secured by assets of such classes:

(1) Assets which may be used as collateral security for advances under subsection (a) of this section, entitled 'Advances on eligible paper', or subsection (b) of this section, entitled 'Advances on Government obligations';

(2) Paper which would be eligible for discount or for purchase by Federal Reserve banks except by reason of the fact that the period of its maturity is greater than that permitted for paper eligible for discount or purchase;

(3) Investment securities as defined by the Comptroller of the Currency pursuant to section 5136 of the Revised Statutes of the United States;

(4) Obligations evidencing loans upon the security of stock which are made in conformity with the provisions of Regulation U;

(5) Obligations insured under the provisions of Title I or Title II of the National Housing Act;

(6) Debentures, bonds, or other such obligations issued by Federal Home Loan banks or issued under authority of the Federal Farm Loan Act, without regard to the maturity of any such obligations;

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"(7) Bills, notes, revenue bonds, and warrants which constitute general obligations of any State or of any political subdivision thereof;

(8) Obligations which are issued or drawn for the purpose of financing, refinancing, or carrying real estate and which comply substantially with the standards set forth in the recommendations relating to real estate loans in the Appendix to this regulation;

(9) Obligations which are issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis and which comply substantially with the standards set forth in the recommendations relating to loans upon an installment basis in the Appendix to this regulation, and obligations of businesses principally engaged in extending credit on such basis and in substantial accordance with such standards.

"In addition, when in the judgment of the Federal Reserve bank circumstances make it advisable to do so, the Federal Reserve bank may accept as security for an advance under subsection (c) of this section any assets other than those set forth above which are satisfactory to the Federal Reserve bank.

"SECTION 3. GENERAL REQUIREMENTS AS TO DISCOUNTS AND ADVANCES

"(a) Applications for discounts or advances. - Every application by a member bank for the discount of paper or for an advance to such bank must contain a certificate of such bank, in form to be prescribed by the Federal Reserve bank, that the paper offered for discount or the security offered for the advance, as the case may be, has not been acquired from a nonmember bank (otherwise than in accordance with section 4 of this regulation) or, if so acquired, that the applying member bank has received permission from the Board of Governors of the Federal Reserve System to discount with the Federal Reserve bank paper acquired from nonmember banks or to obtain advances from the Federal Reserve bank on security so acquired. Every such application shall also contain a notation by the member bank as to whether it has on file a statement which adequately reflects the financial worth of a party primarily liable on the paper offered as security for an advance or for discount or of the person from whom the member bank acquired such paper if such person is legally liable thereon. Every application of a State

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"member bank for the discount of paper must contain a certificate or guaranty to the effect that the borrower is not liable and will not be permitted to become liable to such bank for borrowed money during the time his paper is under discount with the Federal Reserve bank in an amount greater than that which could be borrowed lawfully from such State bank were it a national bank.

"(b) Financial statements. - In order to determine whether paper offered for discount or security offered for an advance is eligible and acceptable, any Federal Reserve bank may require that there be filed with it statements, or certified copies thereof, which adequately reflect the financial worth (1) of one or more parties to any note, draft, or bill of exchange offered for discount or to any obligation offered as security for an advance and (2) of any corporations or firms affiliated with or subsidiary to such party or parties. A Federal Reserve bank may in any case require such other information as it deems necessary.

"(c) Speculative use of credit by a member bank. - Each Federal Reserve bank is required by law to keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse discounts or advances, the Federal Reserve bank is required to give consideration to such information. Each Federal Reserve bank may require such information from its member banks as it may deem necessary in order to determine whether such undue use of bank credit is being made.

"(d) Additional or marginal collateral. - In connection with any discount or advance under this regulation, a Federal Reserve bank may require such additional or marginal collateral as it may deem advisable or necessary for its protection; and the requirements of this regulation with respect to collateral shall not be applicable to such additional or marginal collateral. In any case in which additional or marginal collateral is required, it is expected that the Federal Reserve bank in determining the amount will give due regard to the public welfare and the general effects that its action may have on the position of the member bank, on its depositors, and on the community; and in general a Federal Reserve bank should limit the amount of

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"collateral it requires to the minimum consistent with safety. In any case where the amount of the assets of a member bank, at their reasonable value determined in a manner satisfactory to the Reserve bank, required as collateral in connection with any discount or advance under the provisions of this regulation exceeds at the time of the discount or advance 25 per cent of the amount of paper discounted or 125 per cent of the amount of the advance, as the case may be, the Federal Reserve bank shall include an explanation of the facts and circumstances of the case in its loan schedule submitted to the Board of Governors of the Federal Reserve System.

"(e) Credit extended on security of obligations of the United States. - In any case in which the amount of an advance made by a Federal Reserve bank in accordance with the provisions of this regulation on a member bank's promissory note secured by direct obligations of the United States or obligations which are guaranteed both as to principal and interest by the United States is less than the face amount of such obligations, the Reserve bank shall include an explanation of the facts and circumstances of the case in its loan schedule submitted to the Board of Governors of the Federal Reserve System.

"SECTION 4. PAPER ACQUIRED FROM NONMEMBER BANKS

"(a) Prohibition upon acceptance of nonmember bank paper. - Except with the permission of the Board of Governors of the Federal Reserve System, no Federal Reserve bank shall discount or accept as security for an advance any assets acquired by a member bank from, or bearing the signature or indorsement of, a nonmember bank, except assets otherwise eligible which were purchased by the offering bank on the open market or otherwise acquired in good faith and not for the purpose of obtaining credit for a nonmember bank.

"(b) Applications for permission. - An application for permission to discount paper acquired from nonmember banks or to use as security for advances assets acquired from nonmember banks shall be made by the member bank which desires to offer such paper for discount or such assets as security and shall state fully the facts which give rise to such application and the reasons why the applying member bank desires such permission. Such application shall be addressed to the Board of Governors of the Federal Reserve System but shall be submitted by the member bank to the Federal Reserve bank of the district, which will forward it promptly to the Board of Governors of the Federal Reserve System with its recommendation.

"(c) Paper acquired from Federal Intermediate Credit banks. - The Board of Governors of the Federal Reserve System

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"hereby grants permission to Federal Reserve banks to discount for member banks paper bearing the signature or indorsement of, or acquired from, Federal Intermediate Credit banks or to make advances to member banks upon the security of paper or assets bearing such a signature or indorsement or so acquired, if otherwise eligible under the law and this regulation.

"SECTION 5. DISCOUNTS FOR FEDERAL INTERMEDIATE
CREDIT BANKS

"(a) Kinds and maturity of paper. - Any Federal Reserve bank, under authority of section 13a of the Federal Reserve Act, may discount for any Federal Intermediate Credit bank (1) agricultural paper as defined in section 1 of this regulation, or (2) notes payable to such Federal Intermediate Credit bank covering loans or advances made by it pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, which are secured by notes, drafts, or bills of exchange eligible for discount by Federal Reserve banks. Any paper discounted for a Federal Intermediate Credit bank must bear the indorsement of such bank and must have a maturity at the time of discount of not more than nine months, exclusive of days of grace.

"(b) Limitations. - No Federal Reserve bank shall discount for any Federal Intermediate Credit bank any paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal Reserve System under the terms of section 9 of the Federal Reserve Act. In acting upon applications for the discount of paper for Federal Intermediate Credit banks, each Federal Reserve bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks. Except with the permission of the Board of Governors of the Federal Reserve System, no Federal Reserve bank shall discount paper for any Federal Intermediate Credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal Reserve notes in actual circulation.

"SECTION 6. BANKERS' ACCEPTANCES⁷

"(a) Definition. - A banker's acceptance within the

⁷For regulations governing the acceptance by member banks of drafts and bills of exchange drawn on them, see Regulation C.

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"meaning of this regulation is a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other money, accepted by a bank or trust company, or a firm, person, company, or corporation engaged generally in the business of granting bankers' acceptance credits.

"(b) Eligibility. - Any Federal Reserve bank may discount for any of its member banks any such banker's acceptance bearing the indorsement of a member bank and having a maturity at the time of discount not greater than that prescribed by subsection (c) of this section, which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between dependencies or insular possessions and foreign countries, or between foreign countries;⁸

(2) The shipment of goods within the United States, provided shipping documents conveying security title are attached at the time of acceptance; or

(3) The storage in the United States or in any foreign country of readily marketable staples,⁹ provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer or issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples

⁸In accepting any draft or bill of exchange arising out of a shipment of the kind referred to in clause 1 of subsection (b) of section 6 of this regulation, the accepting bank will be expected to obtain substantiating evidence as to the eligibility of the transaction underlying such draft or bill of exchange.

⁹A readily marketable staple within the meaning of this regulation means an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

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"and all transfers thereof are registered and without whose consent no staples may be withdrawn; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (A) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (B) that a new document, similar to the original one, will be resubstituted within a specified time.

Provided, That acceptances for any one customer in excess of 10 per cent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance, and in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being considered such actual security if they permit the customer to have access to or control over the goods.

"(c) Maturities. - No such acceptance is eligible for discount which has a maturity at the time of discount in excess of ninety days' sight, exclusive of days of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with maturities at the time of discount of not more than six months' sight, exclusive of days of grace. Although a Federal Reserve bank may legally discount an acceptance having a maturity at the time of discount not greater than that prescribed above in this subsection, an acceptance should not have a maturity which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of the period reasonably necessary to finance such transaction. Since the purpose of permitting the acceptance

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"of drafts secured by warehouse receipts or other such documents is to permit the temporary holding of readily marketable staples in storage pending a reasonably prompt sale, shipment, or distribution, no such acceptance should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

"(d) Dollar exchange acceptances. - A Federal Reserve bank may also discount any bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in Regulation C, provided that it has a maturity at the time of discount of not more than three months, exclusive of days of grace.

"(e) Evidence of eligibility. - A Federal Reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve bank."

"APPENDIX

"Recommendations of the Board of Governors of the Federal Reserve System as to the Minimum Standards Which Should Be Observed by Member Banks in Making Loans upon Real Estate

"While recognizing that requirements of individual banks in making loans for the purpose of financing or carrying real estate will vary according to the circumstances of particular transactions, the Board of Governors of the Federal Reserve System believes that certain minimum standards should be observed. Some of these standards are specifically required by law with respect to loans of national banks. Others are advisable as a matter of sound banking practice. The examiners for the Federal Reserve banks should take such standards into consideration in reviewing loans of State member banks, and Federal Reserve banks in passing upon applications of member banks for credit accommodations supported by real estate loans should give preference to the acceptance as collateral of such loans as meet these standards. With these considerations in mind the Board recommends that member banks in making or acquiring real estate loans, other than those insured under Title II of the National Housing Act, apply the standards set forth below as minimum requirements:

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"(1) Obligations issued or drawn for the purpose of financing, refinancing, or carrying real estate should be secured by first lien, evidenced by mortgage, trust deed, or other such instrument, upon improved real estate, including improved farm land and improved business and residential properties;

(2) The amount of the loan or loans evidenced by such obligations should not exceed 50 per cent of the appraised value of the real estate securing such loan or loans and no such loan should be for a longer term than five years, except that any such loan may be in an amount not exceeding 60 per cent of the appraised value of the real estate securing such loan and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which 40 per cent or more of the principal of the loan will be amortized within a period of not more than ten years by means of substantially equal monthly, quarterly, semiannual, or annual payments on principal with interest added or on principal and interest combined, and member banks should take reasonable steps to satisfy themselves that the payments and other requirements of the obligations will be met in accordance with their terms;

(3) There should be on file with the member bank with respect to such obligations the following documents or properly certified or photostat copies thereof:

(a) an appraisal of the value of the real estate which has been made within a reasonable time before the obligation was acquired by the member bank (i) by one or more competent and experienced appraisers independent of the member bank who have no interest, direct or indirect, in the real estate, or (ii) if the member bank maintains a separate real estate department, by one or more officers or employees who are regularly assigned to such department, who specialize in real estate appraisals and who have no interest, direct or indirect, in the real estate, or (iii) by a committee appointed by the board of directors and consisting of not less than two members who are qualified for the purpose and have no interest, direct or indirect, in the real estate, and which appraisal contains, in addition to such other data as may be required by the member bank, statements as to the purpose for which the real estate is used or is proposed to be used and the nature and amount of the income received therefrom;

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"(b) an adequate description of the real estate, including the improvements;

(c) evidence of the title to the real estate in the form of a certificate of a title company, a title insurance policy, an opinion of a competent attorney, or other form satisfactory to the member bank;

(d) satisfactory evidence that no taxes or assessments thereon are delinquent and that adequate insurance is carried; and

(e) such other information and documents as the circumstances of the case may render advisable.

"Recommendations of the Board of Governors of the Federal Reserve System as to the Minimum Standards for Installment Paper Used as Collateral Security for Advances to Member Banks

"While recognizing that requirements of individual banks in making loans for the purpose of financing or refinancing the sale of goods upon an installment basis will vary according to the circumstances of particular transactions, the Board of Governors of the Federal Reserve System believes that certain minimum standards should be observed as a matter of sound banking practice. The examiners for the Federal Reserve banks should take such standards into consideration in reviewing loans of State member banks, and Federal Reserve banks in passing upon applications of member banks for credit accommodations supported by obligations issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis should give preference to the acceptance as collateral of such loans as meet these standards. With these considerations in mind, the Board recommends that the standards set forth below be applied by all member banks as minimum requirements in making or acquiring such loans:

(1) Obligations which are issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis should be secured by first lien upon or retention of title to such goods through a chattel mortgage, conditional sales contract, bailment lease, or other similar instrument, insuring at all times the continuance of an effective and lawful lien or retention of title in favor of the holder of such obligations;

(2) The goods should be of such nature and the terms of the obligations should be such that in the

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"event of the resale of the goods at any time during the life of the obligations it may reasonably be expected that the sum realized will be substantially greater than that necessary to liquidate the amount of the obligations then unpaid, including interest and all charges; and

(3) Member banks should take reasonable steps to satisfy themselves that the payments and other requirements of the obligations will be met in accordance with their terms."

At this point Mr. Foulk, Fiscal Agent, joined the meeting.

Reference was made to a memorandum dated September 11, 1937,

from Mr. Foulk, containing the following recommendations:

- "(1) That the fiscal agent be authorized to proceed with the plans for cashing payroll checks on September 15 in accordance with the plan outlined in the attached memorandum. Payment at that time can be effected without the equipment which would be desired if it were to be a permanent arrangement.
- "(2) That the fiscal agent be authorized to proceed with plans for making cash payments to such employees who so desire and that for that purpose he be authorized
 - (a) to make arrangements with Brink's Express for delivery of cash for each payroll.
 - (b) to obtain a money satchel for transporting cash and a portable steel lock box.
 - (c) to obtain the necessary insurance covering cash while in his possession."

Upon motion by Mr. Davis, the recommendations were approved unanimously, with the understanding that any temporary assistance that the Fiscal Agent's office might require in making up and distributing pay envelopes to employees on pay days will be supplied by the Board's existing staff.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 13, 1937, were approved unanimously.

9/14/37

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steuler
Chairman.