A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 22, 1937, at 10:30 a. m.

PRESENT: 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. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel

Reference was made to the letter received under date of July 16, 1937, from Mr. Samuel H. Hoefer, President of the Bankers Association of Lafayette-Ray Counties, Higginsville, Missouri, transmitting petitions from bankers in thirteen counties in western Missouri requesting that these counties be transferred from the Eighth to the Tenth Federal Reserve District. Upon receipt of the petitions copies were sent to the Federal Reserve Banks of St. Louis and Kansas City with a request that the reserve banks forward to the Board their views with respect to the merits of the request, and detailed reports were subsequently received from both banks.

Mr. Smead stated that, when Mr. Wood was in Washington recently in connection with the opening of the Board's new building, he discussed the proposed revision in the district lines with Mr. Wood and that it

did not appear that he had any information to give to the Board in addition to that already available.

After a discussion, Mr. Smead was requested to prepare a letter to Mr. Hoefer advising that the Board does not approve the transfer of the counties referred to.

Mr. Ransom called attention to the following letter to the Presidents of all Federal reserve banks, prepared by Mr. Vest, which had been circulated among the members of the Board prior to consideration at a meeting:

"Pursuant to the Board's letter of July 30, 1937 (R-41), all of the Federal Reserve banks submitted their comments and suggestions with regard to the proposed revision of Regulation A. The suggestions and criticisms received from the Reserve banks were of much assistance to the Board and to its staff in working out the final form of the regulation, and the Board wishes to express appreciation to the banks for the thorough consideration which was given by them to the proposed regulation.

"It seems appropriate to refer to the more important suggestions which were made by the banks, especially those which were not incorporated in the final regulation, and to state some of the considerations which influenced the Board and its staff in reviewing these suggestions.

"General Principles. - Several banks made suggestions as to the elimination or modification of the preface to the regulation entitled 'General Principles', and in the light of these comments certain changes have been made in the statement of General Principles in the final form of the regulation.

"Section 1. Discount of notes, drafts and bills for member banks. - Two of the Federal Reserve banks suggested that sections 1 and 2 be reversed so that the provisions relating to discounts would come first and those relating to advances would be next in order in the regulation. This suggestion has been adopted, as well as a suggestion that the subsection entitled 'Advances on eligible paper' precede that entitled 'Advances on Government obligations' in what is now section 2 of the regulation.

"Section 1(a). Commercial, agricultural and industrial paper. - One of the Federal Reserve banks suggested that the question whether paper the proceeds of which are loaned to some other borrower be made eligible for discount should be submitted to a committee of Presidents for study and recommendation before any change was adopted. The subject is one which has had thorough consideration over a number of years past, and it was felt that additional study would develop little important information not already available on the subject. Accordingly, it was considered that no sufficient reason existed for deferring a decision with respect to the matter.

"Section 1(c). Construction loans. - Two of the Federal Reserve banks suggested that what is now footnote 4 under 'Construction loans' be changed so as to exclude the offering member bank from the 'persons' who may enter into the agreement to advance the full amount of the loan upon the completion of the construction financed by the note offered for discount. Since member banks are permitted to make mortgage loans it was not thought that a member bank should be excluded from entering into such an agreement merely because it was extending the construction loan. The question whether a member bank is an acceptable 'person' in any given case is essentially one of credit, to be considered by the Federal Reserve bank in the light of the facts in the particular case rather than one of eligibility.

"Section 1(i) Limitations. - Two of the Federal Reserve banks called attention to the last sentence of this subsection with regard to the amount of the paper of one borrower discountable for a State member bank. The law itself contains a provision in the twelfth paragraph of section 9 that no Federal Reserve bank shall be permitted to discount for any State bank or trust company notes, drafts or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association, and the regulation merely restates the provision of the statute. The same limitation is not applicable with respect to national banks, because a Federal Reserve bank is forbidden by the law to discount for a national bank only the amount of paper of one borrower which is in excess of the limitations of section 5200 of the Revised Statutes. The distinction is one which occurs in the statute itself, and it did not seem desirable to make the

"limitation of the regulation with respect to national banks more stringent than provided in the law merely because the law subjects State member banks to the more restrictive provision.

"Section 2(c). Advances on other security under section 10(b) of the Federal Reserve Act. - It was suggested that the words 'highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act' be changed to 'highest discount rate'. This change was not adopted because it was thought that the regulation should conform to the existing practice and to the manner in which the statute has been consistently interpreted.

"One of the Federal Reserve banks suggested a rewording of clause (2) at the end of this subsection so that it would read 'on demand at the option of the Federal Reserve bank'. This particular clause of the regulation is one which has been rephrased several times and has been made the subject of careful study in the light of suggestions previously received from the Federal Reserve banks. It is believed that the language as incorporated in the final form of the regulation accurately reflects the statute and will work out satisfactorily in practice. It did not seem clear that the substitute language suggested was in accord with the intention of the statute.

"Section 2(d). Kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act. - The views of the Federal Reserve banks with regard to the provisions of this subsection were not uniform, one or two feeling that the provisions were undesirable, while others offered no objection to them. Certain suggestions for specific changes in phrasing were made. The Board felt it desirable to retain the provisions in the final regulation as an indication of a preferred list of collateral for advances by Federal Reserve banks under section 10(b) of the Federal Reserve Act, but with the general provision that such advances may be made against any collateral satisfactory to the Federal Reserve bank when in its judgment circumstances make it advisable to do so.

"Several banks suggested that the wording of the subparagraph relating to loans upon the security of stock made in conformity with Regulation U be changed so that it would apply to obligations evidencing loans upon the security of stock which are not made in violation of the provisions of Regulation U. It was thought that such a change would make the provision more comprehensive than it should be, and inasmuch as the paragraph constitutes merely a preferred class

"of collateral, without rendering ineligible as collateral other nonconforming loans on stock, there was no sufficient reason for broadening the subsection in the manner suggested.

"One of the Federal Reserve banks suggested that it would be appropriate to include in this subsection reference to the fact that the loan value of assets acceptable under section 10(b) is subject to determination of the Reserve bank. In view of the provision which has been included in section 3(d) with reference to the amount of assets required as collateral 'at their reasonable value determined in a manner satisfactory to the reserve bank', it is believed that the purpose of this suggestion has been substantially met.

"It was also suggested that all obligations of the kinds enumerated in this subsection as security for advances under section 10(b) should be negotiable in form. Inasmuch as the law permits a Federal Reserve bank to accept any assets satisfactory to it as collateral security for advances under section 10(b), it was thought that the regulation should not make any specific requirement with respect to negotiability of assets securing such advances but that the question whether non-negotiable assets should be taken as such security should be treated as one affecting acceptability from a credit standpoint for consideration by the Federal Reserve bank in each case.

"Section 3(a). Applications for discounts or advances. - One Federal Reserve bank called attention to the fact that this subsection does not require that the applying bank shall certify in its application that the paper offered is eligible for discount under the terms of the regulation. Under the regulation each Federal Reserve bank is free to use its own discretion as to whether it will include such a requirement in its discount application forms. It appeared unnecessary from the standpoint of the Board to make the inclusion of such a requirement mandatory.

"Section 3(d). Marginal Collateral. - Comments were made by the Federal Reserve banks upon the question whether it was desirable that the Board make any statement regarding the amount of marginal collateral required by the Reserve banks. Some objected and others offered suggestions as to the phraseology which might be used in this connection. This point was thoroughly discussed by the Board and its staff and consideration was given to the desirability of making any such statement, whether such a statement should be incorporated in a letter to the Federal Reserve banks

"or in the regulation itself, and what specific limitation on the amount of marginal collateral should be prescribed. As you know, the regulation as adopted does not forbid a Federal Reserve bank to accept collateral in excess of the percentages named, but provides that Federal Reserve banks shall report to the Board in the loan schedule the facts of any case in which the amount of collateral exceeds 25 per cent of the amount of a discount or 125 per cent of the amount of an advance.

"Section 3(e). Credit on security of obligations of the United States. - A number of the Federal Reserve banks offered objection to the provision contained in the draft of the regulation inclosed with R-41 relating to the amount of credit extended on security of obligations of the United States, and indicated a number of administrative difficulties in connection with any such provision. This provision has been considerably modified in the final regulation and requires merely that where the amount advanced on the security of obligations of the United States is less than par, the bank must report the facts to the Board in the loan schedule. This is not intended to mean that such a report must be made in a case in which a member bank obtains the full amount requested by it, but if the member bank requests an advance in the full par amount of the Government obligations offered as security and the advance is made at less than par the facts and circumstances should be reported in accordance with the regulation.

"Section 4(a). Prohibition upon acceptance of nonmember bank paper. - Some of the Federal Reserve banks suggested the desirability of revising the exception to the prohibition upon the acceptance of nonmember bank paper as it appeared in the draft of the regulation submitted with R-41. After consideration of these suggestions, the prohibition has been reworded so as to except therefrom 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.

"The subject of the acceptance of nonmember bank paper for discount or as security for advances under section 10(b) of the Federal Reserve Act is now governed exclusively by the provisions of section 19 of the Federal Reserve Act and section 4 of the revised Regulation A, the prohibition in the revised regulation being intended as a revocation of the blanket authority heretofore outstanding which was granted by the Board's telegrams of March 11 and March 13, 1933 (Trans Nos. 1620 and 1659) and which authorized Federal

"Reserve banks under certain conditions to discount or accept as security for advances paper acquired from or bearing the signature or indorsement of nonmember banks.

"Section 6. Bankers' acceptances. - In accordance with the suggestions of several Federal Reserve banks, there have been restored to the regulation as finally approved the words 'between foreign countries' in paragraph (1) of subsection (b) and the words '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 and all transfers thereof are registered and without whose consent no staples may be withdrawn' in paragraph (3) of subsection (b). The restoration of these provisions brings the new regulation into conformity in these respects with the old regulation.

"Recommendations as to minimum standards in making real estate loans and installment loans. - Some of the Federal Reserve banks recommended the elimination from the Appendix of the recommendations of the Board regarding minimum standards for installment paper and real estate loans used as collateral security for advances to member banks, while others favored their retention. After being modified in several respects to meet specific suggestions of the Federal Reserve banks with regard to the provisions of these recommendations, they have been retained in the Appendix in the hope that they may serve to encourage sound practices by member banks.

"General. - Several suggestions as to wording or phraseology made by the Federal Reserve banks were not adopted because of the desire to have the language of the regulation follow the language of the statute where this was practicable, unless the use of other language appeared to be desirable for some special reason. It may also be said that in a very general way the provisions of the old regulation which are found in the new regulation have been carried forward in substantially the same form unless some material reason for changing the language appeared to make modifications desirable."

Approved unanimously.

Mr. Ransom presented for discussion the question whether, in view of the recent developments in the business and credit situation and the reported adoption by some commercial banks of a more restrictive lending policy, there was anything the Federal Reserve System

should do to call attention again to the authority of the Federal reserve banks to make loans to established industries for working capital purposes. In this connection it was stated that the Reconstruction Finance Corporation had practically discontinued its industrial loan activities and that it might be desirable for the Federal reserve banks to consider applications for industrial loans which are filed with the Corporation.

> The ensuing discussion disclosed a consensus of the members present that it would be desirable for the Federal reserve banks to take such further steps as might be necessary to see that the needs of industrial enterprises for advances for working capital purposes on a sound and reasonable basis are met, and it was understood that Mr. Szymczak would communicate with the Federal reserve banks by personal visit or by telephone for the purpose of advising them of the Board's position and obtaining their cooperation. It was also understood that Mr. Szymczak would suggest that the Federal reserve banks communicate with the local offices of the Reconstruction Finance Corporation to determine whether the offices have on hand any applications for industrial loans which might be considered by the Federal reserve banks.

There was then presented a letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

> "The Board has considered the application of 'Farmers Bank and Trust Company', Blytheville, Arkansas, which was submitted with your letter of August 25, 1937, for permission to operate as a seasonal agency the teller's window at Manila, Arkansas, which, it is understood, was established by the bank on August 24, 1937, in view of the circumstances reported in your telegram of August 23, 1937.

"It appears that Manila is a small cotton center the principal industry of which is the handling of cotton and that the purpose of the proposed teller's window is to afford banking facilities to the community throughout the year. While it also appears that there is good hunting and fishing territory around Manila, the Board, upon a careful consideration of all the circumstances, does not feel that it would be justified in considering the proposed Manila office a seasonal agency in a resort community and approving its establishment under the provisions of subsection (c) of section 5155 of the Revised Statutes.

"Inasmuch as the bank has capital stock of $150,000, whereas the minimum required for the establishment of out-of-town branches, other than seasonal agencies to which the capital requirements of section 5155 are not applicable, by State member banks in the State of Arkansas is $500,000, the Board is not authorized to grant permission to operate a branch at Manila.

"In reaching the conclusion set out above, the Board has had in mind the facts you have presented indicating the need of banking facilities in the community of Manila, but it has been noted that the president of the bank has advised that, if the application for the teller's window cannot be approved under the law, he would take steps to organize a new State bank to serve the community. In the circumstances, the office at Manila should not be operated by the bank beyond the period reasonably necessary for the organization of the proposed new bank. Please advise the Board as to the action the bank proposes to take in the matter and when it is contemplated that the office at Manila will be discontinued."

Upon motion by Mr. McKee, the letter was approved unanimously.

At this point Messrs. Wyatt, Smead, Parry, Dreibelbis 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 October 21, 1937, were approved unanimously.

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

"Reference is made to your letter of October 9 advising that the board of directors of your bank, at its meeting on October 7, voted to request the Board of Governors of the Federal Reserve System to authorize payment of salary to Mr. D. H. Watkins, who is 76 years of age, from January 1 to December 31, 1938, and to Mr. W. O. Patch, who is 65 years of age, from January 1 to August 20, 1938.

"In view of the circumstances as stated in your letter the Board will interpose no objection to the retention of Mr. Watkins until December 31, 1938, and of Mr. Patch until August 20, 1938."

Approved unanimously.

Memorandum dated October 19, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting two letters dated October 11, 1937, from Mr. Attebery, First Vice President of the Federal Reserve Bank of St. Louis, which requested approval by the Board of changes in the personnel classification plans of the head office and Memphis branch to provide at the head office for changes in the maximum salaries for the positions of "Coin Teller" and "Cash Custodian" in the Money Department, the discontinuance of the position of "Bulletin Clerk" in the R.F.C. Collateral and Collection Department, and certain revisions of a minor character in the description of work of three other positions, and for the creation at the Memphis branch of the new position of "General Supervisor" in the Collateral and Custody and Fiscal Agency Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Memorandum dated September 29, 1937, from Mr. Morrill submitting for approval by the Board drafts of entries for the separate record required by Section 10 of the Federal Reserve Act to be kept by the Board covering actions taken by the Federal Open Market Committee on questions of policy at its meetings on January 26, March 15, April 4, May 5 and June 9, 1937.

Approved unanimously.

There was submitted a recommendation, which had been approved by the Personnel Committee, that the Board authorize the payment of a voucher in the amount of $729.58, for electrical work done in the Board's new building, as set forth in purchase order No. 2315.

Approved unanimously.

Letter to Mr. C. I. Canfield, Vice President of the First Security Company, Ogden, Utah, reading as follows:

"Reference is made to your letter of October 2, 1937, to Mr. Lawrence Clayton, Assistant to the Chairman of the Board of Governors of the Federal Reserve System, stating that, in connection with an examination of The First National Bank of Salt Lake City, Salt Lake City, Utah, the examiner has raised a question as to the authority of Messrs. M. A. Browning, V. A. Browning, E. G. Bennett, George S. Eccles and S. S. Eccles to serve as directors of that institution and certain other banks, and requesting the necessary forms for the use of these gentlemen in making application under the provisions of section 8 of the Clayton Act for permission to serve the banking institutions with which they are respectively associated.

"There is inclosed a copy of the Board's Regulation L relating to interlocking bank directorates under the Clayton Act, revised effective January 4, 1936, from which you will note that, under the provisions of section 8 of the Clayton Act as amended by the Banking Act of 1935, a private banker

"or a director, officer, or employee of a member bank of the Federal Reserve System is prohibited from serving at the same time as a director, officer, or employee of any other bank, banking association, savings bank or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia except in certain classes of cases specified in the statute and in certain classes of cases in which the Board of Governors of the Federal Reserve System may, by regulation, permit such service as a director, officer, or employee of not more than one other such institution. Under the provisions of the Act as amended, the Board of Governors is no longer authorized to issue individual permits. The statutory exceptions to the general prohibition of the Clayton Act are set forth in Section 2 of Regulation L and the additional relationships permitted by the Board of Governors pursuant to the authority conferred upon it by the Act are enumerated in Section 3 of the regulation.

"With specific reference to the Clayton Act status of Messrs. M. A. Browning, V. A. Browning, E. G. Bennett, George S. Eccles and S. S. Eccles, it is understood that they are serving respectively, as follows:

Mr. M. A. Browning

Vice president and director	of First Security Bank of Utah, National Association, Ogden, Utah
Director	of The First National Bank of Salt Lake City, Salt Lake City, Utah
Director	of First Security Trust Company, Salt Lake City, Utah

Mr. V. A. Browning

Director	of First Security Bank of Utah, National Association, Ogden, Utah
Director	of The First National Bank of Salt Lake City, Salt Lake City, Utah

Mr. E. G. Bennett

Vice president and director	of The First National Bank of Salt Lake City, Salt Lake City, Utah
Director	of First Security Trust Company, Salt Lake City, Utah

"Mr. E. G. Bennett: (Continued)

President and director	of Pacific Coast Joint Stock Land Bank, Salt Lake City, Utah
Director	of First Security Bank of Utah, National Association, Ogden, Utah
President and director	of First Security Bank of Idaho, Boise, Idaho

Mr. George S. Eccles

Vice president and director	of The First National Bank of Salt Lake City, Salt Lake City, Utah
Director	of First Security Trust Company, Salt Lake City, Utah
President and director	of First Security Bank of Utah, National Association, Ogden, Utah
Director	of First Security Bank of Idaho, Boise, Idaho

Mr. S. S. Eccles

Director	of First Security Bank of Utah, National Association, Ogden, Utah
Director	of The First National Bank of Salt Lake City, Salt Lake City, Utah

It is further understood that First Security Corporation of Ogden, Ogden, Utah, owns more than 50 per cent of the common stock of The First National Bank of Salt Lake City, First Security Trust Company, both of Salt Lake City, First Security Bank of Utah, National Association, Ogden, Utah, and First Security Bank of Idaho, Boise, Idaho, although it appears, as indicated in your letter, that the Reconstruction Finance Corporation holds a voting control in all of these institutions except The First National Bank of Salt Lake City and First Security Trust Company, both of Salt Lake City, by virtue of its ownership of the preferred stock thereof. Accordingly, it appears that none of the interlocking bank relationships set forth above constitute violations of the Clayton Act since (1) interlocking relationships involving The First National Bank of Salt Lake City, First Security Trust Company, both of Salt Lake City, First Security Bank of Utah, National Association, Ogden, Utah, and First Security

"Bank of Idaho, Boise, Idaho, apparently come within the exception set forth in Section 2(d)(4) of the Board's Regulation L by reason of the fact that First Security Corporation of Ogden, Ogden, Utah, owns more than 50 per cent of the common stock of each of these institutions; (2) Mr. E. G. Bennett's services with First Security Trust Company and Pacific Coast Joint Stock Land Bank, both of Salt Lake City, do not come within the prohibition of the Clayton Act inasmuch as neither institution is a member bank of the Federal Reserve System and (3) Mr. Bennett's services with The First National Bank of Salt Lake City and Pacific Coast Joint Stock Land Bank come within the exception set forth in Section 2(b) of the Board's Regulation L.

"The conclusion stated above relates solely to the interlocking relationships set forth in the third paragraph of this letter and is predicated upon the understanding that First Security Corporation of Ogden, Ogden, Utah, owns more than 50 per cent of the common stock of each of the banks involved except Pacific Coast Joint Stock Land Bank, Salt Lake City. If any of the individuals named are also serving other banks such additional interlocking relationships should be considered in the light of the statute and the Board's Regulation L in order to determine whether they constitute violations of the Clayton Act. If First Security Corporation of Ogden does not own more than 50 per cent of the common stock of each of the institutions indicated it is nevertheless possible that the various interlocking relationships set forth above may come within other of the statutory exceptions. In that event it is suggested that it may be more convenient for you to communicate with Mr. S. G. Sargent, Vice President of the Federal Reserve Bank of San Francisco, San Francisco, California, submitting full information as to the existing interlocking relationships, the ownership of the common stock of the banks involved and the proximity to each other of the various cities, towns and villages in which the respective institutions maintain their head offices and branches in order that his office may determine the applicability of section 8 of the Clayton Act to such relationships."

Approved unanimously.

At this point Messrs. Morrill, Bethea, Carpenter and Clayton left the meeting.

Consideration was given to a suggestion that the Board should have on its staff an individual who would give such time as may be

necessary to the industrial loan activities of the Federal reserve banks and that the Board employ for that purpose Mr. Gardner L. Boothe, II, who was a member of the staff of the Reconstruction Finance Corporation from July 1933 to March 1937, and for the last two years of that period was employed in the division handling industrial loans.

After a discussion it was voted unanimously to employ Mr. Boothe as a technical assistant in the Division of Bank Operations, with salary at the rate of $4,000 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Vice Chairman.