

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, October 30, 1937, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
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:

Telegram to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, 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 October 28, 1937, from Mr. Morrill recommending, for the reasons stated in the memorandum, that Messrs. George R. Kay and Thomas B. Handley, elevator operators, be appointed guards and that their salaries be fixed at the rate of \$1,500 per annum each, effective November 1, 1937; and that Mr. Douglas P. Weaver be appointed as an elevator operator, with salary at the rate of \$1,200 per annum, effective upon the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination. The memorandum stated that the Personnel Committee had

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approved, for a trial period at least, the closing at all times of the West Court gate in order to avoid the employment of an additional guard to patrol that area.

Approved unanimously.

Memorandum dated October 28, 1937, from Mr. Carpenter, Assistant Secretary, submitting the resignation of Miss Patricia M. Collier as a temporary file clerk in the Office of the Secretary, to be effective as of the close of business on November 30, 1937, and recommending that the resignation be accepted.

Approved unanimously.

Memorandum dated July 26, 1937, prepared in accordance with the understanding at the meeting of the Board on June 4, 1937, that the senior staff would make a further study of the definition of "savings deposits" as contained in the Board's Regulation Q, Payment of Interest on Deposits, and would submit a recommendation as to any change which it was felt should be made in the definition. The memorandum stated that after a discussion by the senior staff of all aspects of the matter the following conclusions were reached:

On principle, the definition of savings deposits should be further restricted at an appropriate time by amendment to the statute or the regulation, or both, but, under all of the existing circumstances, it was recommended:

1. That no amendment be made to the definition of savings deposits at this time.
2. That the interpretation of the present definition of savings deposits be liberalized along the lines recommended in Mr. Ransom's memorandum of December 15, 1936.

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3. That a ruling regarding the types of organizations which may maintain savings deposits in member banks be published in the Federal Reserve Bulletin in substantially the form attached to the memorandum.

Approved unanimously.

The pertinent part of Mr. Ransom's memorandum of December 15, 1936, read as follows:

"Changes in regulations are disturbing and confusing to bankers, who find it difficult at best to keep themselves informed as to all the requirements of the various administrative authorities and if, as the Federal Advisory Council seemed to feel, the situation can be met satisfactorily without a change in the Board's definition of savings deposits, it is clearly desirable to do so. I believe that the present definition could be given a somewhat more liberal meaning than has been indicated by previous rulings and I am prepared, therefore, to recommend that the Board take the position that organizations of the following kinds may have savings deposits under the Board's regulation:

- Bar associations, medical associations, dentists' associations and similar professional organizations
- Labor unions of the prevalent type
- United States Chamber of Commerce
- National Lime Association
- Bicycle Manufacturers' Association
- National Fertilizer Association, Inc.
- Rotary Clubs, Kiwanis Clubs and similar business groups
- Luncheon and dinner groups which are carried on primarily for social purposes

"Without going into the details of the purposes and methods of operation of each of these organizations, it seems to me that their general character is sufficiently well understood to provide a guide for determining whether the list may be extended to include other organizations. It seems to me that the distinctive characteristic which runs through all these forms of organization is that they are organized and conducted for the mutual benefit of their members, without the necessity in order to effectuate this primary purpose

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"of being directly engaged in or carrying on any business enterprise. I would not, however, hold that such an organization could not have savings deposits if it should appear that incidentally, but not as its primary function, it owned or controlled some business enterprise, as, for example, it is known that some church organizations and labor unions may have investments in banks, but that in such cases the operation of the banks is not in any sense a primary purpose of the organization or even essential to the effectuation of such purpose.

"Perhaps some of the other organizations in the list of organizations which the Board has held could not have savings deposits are sufficiently similar to those which I now recommend be permitted to have savings deposits to justify their inclusion in this recommendation, but I do not have before me all the facts necessary to enable me to reach a conclusion as to them, and, therefore, I suggest that the question whether they should be included be left open for consideration in case any of them should feel that they are entitled to similar treatment."

The statement submitted for publication in the Federal Reserve Bulletin regarding the types of organizations which may maintain savings deposits in member banks, read as follows:

"Classification of Deposits of Certain Organizations as Savings Deposits

"The definition of savings deposits in Regulation Q, which relates to payment of interest on deposits, and in Regulation D, which relates to reserves of member banks, reads in part as follows:

'The term "savings deposit" means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, * * *.'

"It will be noted that under this definition member banks may classify deposits of one or more individuals as savings deposits if the deposits comply in other respects with the regulation; but they may not classify deposits of any corporation, association or other organization as savings

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"deposits unless (1) such organization is operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes; (2) such organization is not operated for profit; and (3) such deposits comply in other respects with the requirements of the regulation.

"With respect to many organizations such as churches, charity hospital associations, fraternal orders and endowed educational institutions which are not operated for profit, no questions have arisen since such organizations are obviously operated for religious, philanthropic, charitable, educational, fraternal or other similar purposes. However, numerous questions have arisen as to whether deposits of certain other types of organizations which are near the border-line of the definition may be classified by member banks as savings deposits. The Board has given careful study to these questions and has reached the conclusion that the types of organizations set forth below may be considered to be operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and, therefore, that deposits of such organizations may be classified by member banks as savings deposits if the organizations are not operated for profit and if the deposits otherwise comply with the requirements of the definition.

Professional associations, such as bar, medical, and dentists' associations.

Trade associations, including manufacturers' associations, retailers' associations, and chambers of commerce.

Business men's clubs, such as Rotary Clubs and Kiwanis Clubs.

Recreational clubs, such as golf and tennis clubs.

Social clubs, such as luncheon clubs and college fraternities.

Labor unions of the usual type.

Volunteer fire companies and ladies' auxiliaries thereof.

Cemetery associations.

School districts.

Police or firemen's pension or relief associations (including a special fund held by a political subdivision to provide pensions for police or firemen).

American Automobile Association, Retired Officers Association, and other similar organizations.

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"The Board has also reached the conclusion that deposits of the organizations listed below may not be classified by member banks as savings deposits either because the organizations are not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes or because they are operated for profit.

Building and loan associations.

Mutual or cooperative fire or life insurance associations.

Reciprocal or inter-insurance associations.

Cooperative marketing associations, such as citrus growers or dairymen's cooperative marketing associations.

Credit unions, Federal or State.

States and municipalities and other political subdivisions thereof (except school districts) including departments, boards, and commissions of such political subdivisions.

"Although deposits of the types of organizations listed immediately above may not be classified by member banks as savings deposits for the purpose of payment of interest or of computation of reserves, attention is invited to the fact that any of such organizations may maintain time deposits with member banks. With respect to such deposits, which may be either in the form of time certificates of deposit or time deposits open account, member banks may pay interest in accordance with the provisions of Regulation Q and maintain reserves in accordance with the provisions of Regulation D relating to time deposits.

"The above lists of organizations which may or may not maintain savings deposits in member banks are not intended to be complete but merely contain examples compiled from various cases which have been submitted to the Board. Any necessary inquiry as to the proper classification of other organizations for this purpose should be submitted directly to the Federal Reserve bank of the district in which the inquiry arises rather than to the Board. The Federal Reserve banks will, in so far as possible, answer such questions in the light of the illustrative cases stated above."

Letter to Mr. Henry Y. Offutt, Secretary, For the Trustees under Trust Agreement with Reference to the Stock in the First National Bank of Louisville and Other Corporations, Louisville, Kentucky, reading as follows:

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"This refers to your letter of September 24, 1937, addressed to Mr. Wingfield and requesting a list of all bank holding companies that are required to obtain from the Board of Governors permits to vote the shares of bank stock owned and controlled. You also requested advice as to the bank holding companies which are operating under permanent voting permits issued by the Board and those which are operating with temporary voting permits.

"The Board has not attempted to compile a list of all holding companies which would have to obtain permits from the Board in order to vote bank stock owned or controlled and has not published a list of holding companies which have applied for and now hold general voting permits issued by the Board. The Board from time to time has issued limited voting permits covering particular meetings of subsidiary banks for particular purposes stated in the voting permit. However, the effectiveness of these limited permits does not continue beyond the specific purpose for which they are granted. In view of all the circumstances, a list of holding company affiliates now holding voting permits issued by the Board is not inclosed herewith. It may be noted that your letter does not state the purpose for which the information you requested is desired, but it is understood from a previous conversation you had with Mr. Wingfield that it was for the purpose of determining holding company affiliates which might be confronted with problems similar to those of the holding company affiliate with which you are connected; and, if you desire to pursue the matter further, it is suggested that you get in touch with the Federal Reserve Bank of St. Louis."

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

"There are inclosed herewith a copy of a letter which has been received from Mr. Henry Y. Offutt, Secretary, For the Trustees under Trust Agreement with Reference to the Stock in the First National Bank of Louisville and Other Corporations, and a copy of the Board's reply thereto. There is also inclosed for your assistance in connection with any advice which you deem desirable to furnish Mr. Offutt if he pursues the matter further a list of general voting permits outstanding October 1, 1937. You understand, of course, that the Board has not published the inclosed

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"list, and if you decide to furnish such list to Mr. Offutt it should be on the basis that it is merely for his information and is not to be used for publication."

Thereupon the meeting adjourned.

Charles H. Merrill
Secretary.

Approved:

W. C. Coker
Chairman.