

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

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

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. Kimball, Secretary of the Federal Reserve Bank of New York, stating that the Board approves the establishment without change by the bank on November 10, 1937, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter to Honorable J. F. T. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Mr. Gough's letter of July 9, 1937, presenting on behalf of the First National Bank, Ithaca, New York, the question whether a deposit of the 'Board of Fire Commissioners Relief Fund' may be classified by a member bank as a savings deposit.

"It is understood that these funds consist of a 2 per cent tax levied on foreign insurance companies on their gross premiums received from insurance written in the City of Ithaca, and that this money can only be used for the relief of sick and injured firemen.

"The Board of Governors has recently taken the position that police or firemen's pension or relief associa-

11/11/37

-2-

tions (including a special fund held by a political subdivision to provide pensions for police or firemen) may be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and that deposits of such organizations may be classified by member banks as savings deposits if they comply with the other requirements of the definition. It appears that the 'Board of Fire Commissioners Relief Fund' falls within the scope of this ruling and, accordingly, it is our view that the deposits in question may be classified by member banks as savings deposits if they comply with the other requirements of the definition.

"Mr. Gough also asks to be advised whether deposits of school districts may be classified by member banks as savings deposits. The Board of Governors has recently taken the position that school districts may be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. Accordingly, deposits of school districts may be classified by member banks as savings deposits if they comply with the other requirements of the definition."

Approved unanimously.

Letter to Honorable J. F. T. O'Connor, Comptroller of the Currency, reading as follows:

"Reference is made to Mr. Lyons' letter of December 4, 1936, regarding the question whether deposits under the title 'Custodian E. & R. Branch, 4th Corps Area' may be classified by member banks as savings deposits under the definition in section 1(e) of Regulation Q.

"Mr. Lyons stated that the funds in question may be withdrawn only on signatures of the officers of the Finance Department of the United States Army, which has advised the member bank that the funds are not public funds but are non-appropriated moneys and public donations which are considered to be in the same category as a Company or Organization Fund and that the funds are disbursed only for educational and recreational purposes.

"The nature of these funds is not entirely clear from the information submitted. However, if the funds are held by the 'Custodian' for the benefit of the members of the service organization in question and are in fact used only for educational and recreational purposes, no objection

11/11/37

-3-

"will be offered to the classification of these deposits as savings deposits, if they otherwise comply with the requirements of the definition in section 1(e) of Regulation Q."

Approved unanimously.

Letter to Mr. Wood, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"There is inclosed a copy of a letter dated September 13, 1937, received by the Board from The Callaway Bank, Fulton, Missouri, requesting that the Board waive the requirement for publication of reports in accordance with Form 220a by Investors Realty Company, an affiliate of the subject member bank, together with a copy of the Board's letter of acknowledgment dated September 20. The bank submitted and published the required report of the affiliate as of the last call date, June 30, 1937, but desires to be relieved from the necessity of publishing such reports in the future. In support of its request it states that 'Publication of the affiliate statement requires a certain amount of extra work, not of any significance, however, and some extra recurring expenses' and that 'the benefit and advantage to any one, of such publication is not worth and does not justify this expense and extra work although they are not excessive.'

"It appears that the Investors Realty Company was organized in December, 1936, about three months before the bank's admission to membership, for the purpose of taking over the bank's 'Other real estate.' The affiliate purchased the 'Other real estate' of the member bank for \$30,000, giving in payment therefor \$10,000 in cash and a 5-year note for \$20,000 secured by farm land and improvements. It further appears from the examination report of the bank as of February 8, 1937, that, on that date, the shareholders of the affiliate owned 776 of the 1,000 outstanding shares of the subject member bank. Although not entirely clear, it is understood from the bank's letter that control of the affiliate is still held by the shareholders of the member bank who own or control a majority of the shares of such bank. If that is the case the Investors Realty Company is an affiliate within the meaning of subparagraph (2) of Section 2(b) of the Banking Act of 1933, and the bank has raised no question as

11/11/37

-4-

"to the existence of such affiliation. Since the affiliate appears still to be indebted to the member bank in the amount of \$20,000, reports thereof are not waived by the existing terms of waiver printed on Form 220b, inasmuch as the indebtedness exceeds \$1,750, or 1 per cent of the bank's capital and surplus.

"In order to avoid any possible discrimination, the Board has, as you know, adopted certain rules applicable to all State bank members alike governing the waiver of reports of affiliates. These terms of waiver, which are printed on Form 220b, were formulated in cooperation with the Comptroller's office and are the same as the terms of waiver prescribed by that office governing reports of affiliates of national banks. It is not the Board's practice to waive submission and publication of affiliate reports in individual cases, although specific reports have been waived in a few cases involving exceptional circumstances, for example, where an affiliation was terminated soon after a call for reports was made. From time to time the Board considers possible modifications of the existing terms of waiver, but such modifications must, of course, be consistent with the provision of Section 21 of the Federal Reserve Act, as amended, which empowers the Board to waive the requirement for submission of an affiliate report if, in the judgment of the Board, the report 'is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank.'

"The Board sympathizes with the position of the subject member bank and appreciates that the affiliate relationship was brought about in circumstances which doubtless were advantageous to the bank. The Board feels, however, that it would not be consistent with the pertinent provision of law to issue regulations which would waive submission and publication of reports of affiliates in cases involving relationships such as exist in this instance. Please advise the member bank accordingly."

Approved unanimously.

Letter to Honorable Burton K. Wheeler, United States Senate,
reading as follows:

"This refers to your letter of October 26, 1937, regarding the application of the Viking Mining Company, Great

11/11/37

-5-

"Falls, Montana, for an industrial advance from the Federal Reserve Bank of Minneapolis. As you were advised in our letter of October 30, 1937, we have communicated with the Federal Reserve Bank of Minneapolis and have obtained additional information with reference to this application.

"The application was considered by the Industrial Advisory Committee and the Discount Committee of the Reserve bank and by the bank's counsel. One of the problems which arose in their consideration of the matter was whether the requested advance could lawfully be made in accordance with section 13b of the Federal Reserve Act which, as you know, provides that industrial advances may be made by a Federal Reserve bank to 'an established industrial or commercial business * * * for the purpose of providing it with working capital'. After carefully studying the matter it was concluded that the proposed advance could not lawfully be made by the bank since it was not a loan for the purpose of providing 'working capital'.

"This conclusion was based upon the understanding that the proceeds of the loan were to be used for the payment of existing indebtedness and for the purchase of permanent equipment. In Mr. Dirks' letter of September 17, 1937, to the Federal Reserve Bank of Minneapolis inclosing the application for an advance, the following statement was made: 'we have applied for a loan of \$35,000 with which to liquidate \$26,845.36 of liabilities. The remainder of the loan, if granted, is to be used as further working capital.'

"Although Mr. Dirks' letter stated that the remainder of the loan was to be used as further 'working capital', other information submitted in connection with the application indicated that the remainder of the loan was to be used for fixed capital purposes. For instance, in his letter to you dated August 13, 1937, Mr. Dirks stated the following: 'Mr. Jenkins, therefore, referred us to the Federal Reserve Bank, inasmuch as the accommodation that we require being for the payment of additional equipment, enlargement of mill and betterment in the mine does not come under the head of regular banking, and as stated before, the returns from our small mill are not sufficient for this additional expenditure, which is justified and in keeping with our prospects and possibilities.'

"It appears from the report made by the Federal Reserve bank to the Board of Governors that the application has had thorough consideration by the Industrial Advisory Committee and by the Federal Reserve bank. The Federal Reserve Bank

11/11/37

-6-

"of Minneapolis also advises that it has received a letter dated October 26, 1937, from the applicant furnishing additional data regarding the application and that this letter has been submitted to the Industrial Advisory Committee and the applicant so advised. In the circumstances there appears to be no basis for further action by the Board of Governors in the matter."

Approved unanimously.

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

"The Board has considered your letter of October 20, 1937 and inclosures regarding the desirability of amending Regulation R by adding an exception which would make the provisions of section 32 of the Banking Act of 1933 not applicable to a 'limited' partner in a firm primarily engaged in the business described in that section.

"As you know, the question is the same as that which was considered by the Board in revising Regulation R following the Banking Act of 1935. The Federal Reserve banks were specifically asked to comment upon the desirability of making such an exception, and the Board considered the matter in the light of their comments and all other data available to it before the revised regulation was issued in January 1936. It does not appear that any new facts or arguments are advanced, and on further consideration the Board does not believe that it should alter the views which it had when the revised Regulation R was issued."

Approved unanimously.

Thereupon the meeting adjourned.

Walter H. Moore
Secretary.

Approved:

W. H. Moore
Chairman.