

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 23, 1937, at 11:00 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. Paulger, Chief of the Division of Examinations  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Wingfield, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the Division of Examinations  
Mr. Blattner, Assistant Director of the Division of Research and Statistics

There was presented a letter dated November 17, 1937, from Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, requesting, for the reasons stated in the letter, that the Board approve for Mr. Wood, Vice President of the bank, salary for the year 1938 at the present rate of \$15,000 per annum. A draft of reply to Mr. Nardin's letter was considered in the light of the position taken by the Board in its letter of May 11, 1937, to Chairman Nardin with respect to the continuation of Mr. Wood's services during the coming year.

During a discussion, reference was made to the possible difference in amounts that might be payable to Mr. Wood's estate in the event of his death during active service

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and if death occurred following his retirement, and it was understood that the draft of reply to Mr. Nardin's letter would be re-submitted to the Board for consideration after being amended to include a statement designed to obtain assurance that these differences had been explained to Mr. Wood.

Reference was made to a letter addressed to Mr. Szymczak under date of November 15, 1937, by President Fleming of the Federal Reserve Bank of Cleveland, referring to the beneficial results of the meeting of the directors and officers of the Federal reserve banks with the Board on the occasion of the formal opening of the Board's new building and suggesting that it would be desirable if such meetings were held from time to time in Washington either of groups of directors and officers of Federal reserve banks or the boards of directors of individual reserve banks. The letter also suggested that it might be an excellent thing for the Board of Governors to visit in a body some of the eastern Federal reserve banks for the purpose of establishing closer contacts with the respective boards of directors. In this connection, attention was called to a letter addressed to Chairman Eccles under date of November 19, 1937, by President Schaller of the Federal Reserve Bank of Chicago, which offered a similar suggestion. The question of the desirability of meetings of the Board of Governors with directors and officers of Federal reserve banks was discussed as well as the procedure that might be followed and the matters that might be discussed at such meetings.

At the conclusion of the discussion it was agreed that Mr. Szymczak would prepare,

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for the consideration of the Board, drafts of replies to the letters from the Presidents of the Federal Reserve Banks of Cleveland and Chicago.

At this point Mr. Goldenweiser, Director of the Division of Research and Statistics, entered the room.

Consideration was then given to memoranda dated October 28 and November 8, 1937, from Mr. Goldenweiser with respect to the payment made to Mrs. Kitzmiller following the death of Mr. Kitzmiller, Printing Clerk in the Division of Research and Statistics, on September 15, 1937. The memorandum of October 28 stated that Mr. Kitzmiller, who became 65 years of age on May 5, 1937, had requested that he be continued in the employ of the Board until the end of the year, and that since he died in active service his estate was entitled under the Rules and Regulations of the Retirement System to \$4,791.92 (representing one year's salary plus his contributions to the Retirement System with interest), whereas if he had retired upon reaching 65 years of age his estate would have received approximately \$13,600 (representing the actuarial reserve which would have been created upon his retirement plus the \$1,800 which would have been contributed by the Board to the Retirement System pursuant to the action taken at the meeting on March 25, 1937). The memorandum of November 8 stated that when Mr. Kitzmiller decided to remain in the employ of the Board for the remainder of the year he did not realize that he was jeopardizing his estate to the extent of approximately \$8,800 in the event he

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should die before retirement, and that, inasmuch as the payment to Mrs. Kitzmiller of the \$1,800 authorized by the Board to be paid to the Retirement System on behalf of Mr. Kitzmiller would not establish a dangerous precedent because of the unusual circumstances involved, it was recommended that such a payment be made.

Mr. Davis moved that the Board authorize the payment of \$1,800 to Mrs. Kitzmiller in accordance with Mr. Goldenweiser's recommendation.

The matter was discussed in the light of a memorandum dated October 29 from Mr. Van Fossen, Assistant Chief of the Division of Bank Operations. During the discussion Mr. McKee suggested that steps be taken to establish a procedure under which members of the Retirement System of the Federal Reserve Banks would be given full information regarding the benefits to which their estates would be entitled in the event of death while in active service as compared with the payments that would be made in the event of death following retirement.

At the conclusion of the discussion, Mr. Davis' motion was approved, Mr. Szymczak voting "no".

Reference was made to an application for membership in the Federal Reserve System which had been filed by the "Metropolitan Trust Company", Chicago, Illinois, and which had been submitted with the favorable recommendation of the Federal Reserve Bank of Chicago and the Board's Division of Examinations. The trust company was chartered

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under the General Corporation Act of Illinois rather than under the banking laws of the State and was not authorized to conduct a banking business. The application had been considered by Counsel's office and a memorandum had been submitted under date of November 19, 1937, by Mr. Wingfield in which it was stated that it was entirely clear that the trust company was eligible for membership in the System and that the question whether it should be admitted to membership, notwithstanding the fact that it had no authority to conduct a banking business, was a matter of policy to be determined by the Board. The application was considered in the light of the policy which had been adopted by the Board in the past of admitting trust companies to membership which do substantially no commercial banking business and it was agreed that the policy was applicable to institutions such as the Metropolitan Trust Company.

Thereupon, upon motion by Mr. McKee, unanimous approval was given to a letter to the board of directors of the Metropolitan Trust Company stating that, subject to the conditions of membership set forth below, the Board approves the trust company's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

1. Such trust company at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors and interests of the trusts under its administration, and, except with the permission of the Board of Governors of the Federal Reserve System, such trust company shall not

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- "cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
- "2. The net capital and surplus funds of such trust company shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities, and its capital shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System.
- "3. Such trust company shall not engage as a business in issuing or selling either directly or indirectly (through affiliated corporations or otherwise) notes, bonds, mortgages, certificates, or other evidences of indebtedness representing real estate loans or participations therein, either with or without a guarantee, indorsement, or other obligation of such trust company or an affiliated corporation.
- "4. Such trust company shall not invest funds held by it as fiduciary in obligations of or property acquired from the trust company or its directors, officers, employees, members of their families, or their interests, or in obligations of or property acquired from affiliates of the trust company.
- "5. Such trust company shall not invest funds held by it as fiduciary in participations in pools of mortgage bonds or other securities, and the securities and investments of each trust shall be kept separate from those of all other trusts and separate also from the properties of the trust company itself; provided, however, that the Board of Governors of the Federal Reserve System will not object to the collective investment of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the trust company owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary, and if such collective investment is not prohibited by State law or the instrument creating the trust.

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- "6. If funds held by such trust company as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.
- "7. Prior to admission to membership, such trust company, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$4,025.00 as shown in the report of examination of such trust company as of October 9, 1937, made by an examiner for the Federal Reserve Bank of Chicago."

At this point Messrs. Goldenweiser, Paulger, Leonard and Wingfield left the meeting.

Attention was called to a memorandum dated November 11, 1937, from Mr. Morrill submitting a draft of a manuscript entitled "Bank Suspensions, 1921-1936" which contained a review of bank suspensions during the years from 1921 to 1936, inclusive. The memorandum, which had been circulated among the members of the Board, stated that the material contained in the manuscript was of a factual nature and largely statistical and that, unless there were objections on the part of the Board, it was desired to incorporate the information in the next issue of the Federal Reserve Bulletin pursuant to the plan for the publication of the material as announced in the August issue of the Bulletin.

It was agreed that the manuscript should be sent to the printer and that when the galley proof was received the question of publication should be placed on the docket for further consideration by the Board.

Mr. Ransom stated that he had received a letter from Mr. Lawrence Wood Robert, Jr., requesting that he (Mr. Ransom) discuss with the Board

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the idea of placing a bust of former Governor Eugene Black in the Board's new building. Mr. Ransom stated that, if agreeable to the members of the Board, he would advise Mr. Robert that, because of the urgency of other matters, a decision had not been reached on the question of portraits and busts in the new building and that, therefore, it would be necessary to defer a decision on Mr. Robert's request until the question of general policy had been more thoroughly explored and a decision reached as to whether portraits or busts can be placed in the building. The letter would also contain, Mr. Ransom said, a suggestion that if, after a decision is reached by the Board, the members of Governor Black's family should desire to present a portrait or bust, they give consideration to the presentation of a copy of the portrait of Governor Black now hanging in the board room of the Federal Reserve Bank of Atlanta rather than the bust a picture of which was inclosed with Mr. Robert's letter.

The members of the Board expressed agreement with the substance of Mr. Ransom's proposed reply.

Messrs. Wyatt, Smead, Dreibelbis and Blattner then left the meeting and consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 22, 1937, were approved unanimously.

Telegram to Mr. Stewart, Chairman of the Federal Reserve Bank



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of San Francisco, 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.

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

"This refers to your telegram of October 1, 1937, and our reply of October 2, 1937, and to our later correspondence with regard to the question whether a note given directly to a member bank, the proceeds of which are used by the maker of the note to purchase goods for use and not for resale, is eligible for discount by a Federal Reserve bank under Regulation A. In this connection it should be noted that the regulation permits paper, the proceeds of which are advanced or loaned to some other borrower, to be discounted provided the proceeds are used by such other borrower for a commercial, agricultural or industrial purpose, and provided the paper is of proper maturity and meets the other requirements of the regulation. If, therefore, the purchase of goods for use and not for resale is regarded as a commercial transaction, the note of a finance company, the proceeds of which have been or are to be used to finance the purchase of goods by consumers, may be eligible for discount.

"Section 13 of the Federal Reserve Act authorizes a Federal Reserve bank, under certain conditions, to discount 'notes, drafts and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act.'

"It is the opinion of the Board that a borrowing for the purpose of making a purchase of goods is a borrowing for a commercial purpose, whether the borrower intends to use the goods himself or to resell them. A note of a buyer given to a seller in payment for articles purchased is clearly

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"a note issued or drawn for a commercial purpose. However, the purpose of the note is the same, whether given by the buyer to the seller or given by the buyer directly to a bank or finance company, for in either case the proceeds are used to finance a sale-- a 'commercial transaction'. While it may be suggested that from a practical viewpoint there is a difference between the discount of such a note in the hands of the seller and a direct lending by a bank or finance company to the purchaser, there appears to be no justification for any such distinction from a legal standpoint. In either case the purpose of the giving of the note is to finance the final step in the distribution of goods, the sale to the consumer.

"Accordingly, upon consideration of the question which has been presented, the Board has reached the conclusion that a note, the proceeds of which are used by the maker to purchase goods for use or consumption rather than for resale is a note arising out of an actual commercial transaction within the meaning of section 13 of the Federal Reserve Act. Accordingly, such a note given by the maker directly to a member bank will be eligible for discount by a Federal Reserve bank under Regulation A if it meets the applicable requirements of the regulation as to maturity and in other respects. For example, a note given to a member bank by a householder who uses the proceeds to purchase household equipment such as radios or furniture will be eligible for discount if it has a maturity at the time of discount of not exceeding 90 days. Likewise, the note of a finance company given to a member bank, the proceeds of which are loaned to other borrowers who use the funds thus obtained to purchase goods for use or consumption, will be eligible for discount by a Federal Reserve bank if the note meets the applicable requirements of the regulation as to maturity and in other respects."

Approved unanimously, together with  
a letter to the Presidents of all Federal  
reserve banks, reading as follows:

"For your information there is inclosed herewith a copy of a letter which the Board has addressed to the First Vice President of the Federal Reserve Bank of San Francisco with regard to the question whether a note given directly to a member bank, the proceeds of which are used by the maker of the note to purchase goods for use and not for resale, is eligible for discount by a Federal Reserve bank under Regulation A.

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"A ruling incorporating the substance of the inclosed letter will be published in the December number of the Federal Reserve Bulletin, and Federal Reserve banks may advise member banks of the Board's position in this matter immediately if they so desire."

In connection with the above matter, the Board also approved unanimously for publication in the December issue of the Federal Reserve Bulletin a ruling, in the form submitted, incorporating the substance of the letter to Mr. Clerk.

Thereupon the meeting adjourned.

Chester B. M. Price  
Secretary.

Approved:

Donald Davidson  
Vice Chairman.