

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, December 4, 1937, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 3, 1937, were approved unanimously.

Memorandum dated November 29, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment on a temporary basis for a period of three months of Miss Barbara C. Smith as a draftsman in the Division, with salary at the rate of \$120.00 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

Letter to Mr. Harry E. Toston, reading as follows:

"In accordance with the request contained in your letter of December 3, the Board of Governors of the Federal Reserve System is accepting your resignation as a member of the force connected with the inspection of the Board's new building, effective at the expiration of the

12/4/37

-2-

"amount of annual leave allowable under the Board's regulations.

"In this connection I may add that I have been advised from time to time by Mr. Kramer regarding your work and have had also an opportunity personally to observe its quality and that I am pleased to be able to express to you our appreciation of the uniformly high character of the services that you have rendered and the conscientious manner in which you have looked after the Board's interests."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of November 22, 1937, advising the Board that at a meeting of the Board of Directors of your bank held on November 20, 1937, Mr. Thomas H. Hodgson of your bank examination department was elected Assistant Counsel of your bank, effective January 1, 1938, without change in salary. The Board approves a salary for Mr. Hodgson as Assistant Counsel at his present rate of \$5,000 per annum for the year 1938.

"From your letter of November 4, 1937, it is assumed that Mr. Hodgson's status as Trust Examiner will be terminated when he takes his new position. It will be appreciated if you will advise the Board in this regard."

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, prepared in accordance with the action taken at the meeting of the Board on November 23, 1937, and reading as follows:

"Mr. Szymczak brought to the attention of the Board your letter of November 15 with respect to meetings of directors and officers of the Federal reserve banks with the Board of Governors. The Board also received a letter dated November 19 from President Schaller, of the Federal Reserve Bank of Chicago, transmitting a suggestion of the board of directors of that bank that a meeting of all directors of the Federal reserve banks be held at least annually at some point convenient for all directors.

"The Board is in full accord with the thought that meetings with directors of Federal reserve banks from

12/4/37

-3-

"time to time would be very desirable. In this connection you may recall that in 1934 an attempt was made to arrange for meetings with boards of directors of the Federal reserve banks, but because of other demands it was not possible to work out a practical program, and the meetings were postponed. Certain questions of procedure have arisen in considering the idea upon which the Board would be glad to have the advice of your directors, and it will be appreciated if you will discuss the matter with them.

"Naturally, the first question that arose was whether the meetings should be confined to directors only, or to directors and officers of the Federal reserve banks, and whether they should be extended to include directors of the branches. Even without the directors of the branches, it was pointed out that a meeting of all the directors and senior officers of the twelve Federal reserve banks would be quite large and might not be productive of the desired results. On the other hand, doubt was suggested as to whether a meeting with the directors and officers, including possibly, also, the directors of the branches of a single district, would be as desirable as a grouping of, say, three districts at one meeting.

"Interwoven with these questions were the additional questions as to whether the meetings should be held in Washington or at some other place or places which might be convenient for the particular banks represented, and what sort of a program should be formulated, and by whom, as to the matters to be discussed.

The Board will be glad to have the benefit of the recommendations of your directors on these questions and is sending a copy of this letter to the President of each of the Federal reserve banks for the same purpose.

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, also prepared in accordance with the action taken at the meeting of the Board on November 23, and reading as follows:

"Receipt is acknowledged of your letter of November 19, 1937, with which you transmitted the suggestion of the board of directors of your bank that a meeting of the directors of all Federal reserve banks be held at least annually at some point convenient for all directors and that such a meeting be held very soon.

12/4/37

-4-

"A similar suggestion had been received from President Fleming of the Federal Reserve Bank of Cleveland and there is inclosed herewith a copy of the Board's reply to his letter.

"It will be appreciated if you will discuss the matter further with the directors of your bank in the light of the request contained in the letter to President Fleming and advise the Board of the suggestions that they may wish to make."

In connection with the above matter, the following letter to the Presidents of all Federal reserve banks, except Cleveland and Chicago, was also approved unanimously:

"Recently a suggestion was received from President Fleming of the Federal Reserve Bank of Cleveland that it would be beneficial if meetings of the directors and officers of the Federal reserve banks with the Board of Governors could be arranged, either in groups of directors and officers or the directors and officers of individual Federal reserve banks. In its reply, a copy of which is attached, the Board has requested that President Fleming obtain the suggestions of the board of directors of the Federal Reserve Bank of Cleveland as to the details of a program for such meetings. It will be appreciated if you will discuss the matter with the board of directors of your bank in the light of the request made in the letter to President Fleming and advise the Board of the suggestions that your directors may wish to make.

"When the suggestions of all Federal reserve banks have been received, the Board, sometime after the first of the year, will advise you of the program determined upon."

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of your letter of November 22, 1937, advising the Board of the results of the consideration given by you and by Chairman Geery and the auditing committee of your board of directors to the report of a survey of the Auditing Department of your bank transmitted to Chairman Geery with the Board's letter of November 1, 1937.

12/4/37

-5-

"The Board appreciates the completeness of your review of the matters contained in this report of survey and has noted with considerable interest the steps taken by your bank for the further improvement of your Auditing Department."

Approved unanimously.

Letter to Mr. McKinney, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board acknowledges, with thanks, your letter of November 10, 1937, with reference to inaccurate statements contained on page 24 of the Report of Survey of your Bank Examinations Department, recently conducted by the Board's Examiner Cagle.

"The explanations as to the inaccuracies, and particularly the clarification of Mr. Evans' position regarding the rotation of examiners, have been called to the attention of those here who have had occasion to read the Survey Report and appropriate notations have been made in our copies of the Report."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of November 17, 1937, raising two questions with regard to the eligibility of paper of finance companies for discount under Regulation A.

"Under the provisions of the revised regulation, a note of a finance company the proceeds of which are loaned to other borrowers for commercial purposes is eligible for discount by a Federal Reserve bank if the note complies with the applicable requirements of the regulation as to maturity and in other respects. In the case considered in the opinion of your counsel which was inclosed with your letter, it appears that the proceeds of a note of a finance company have been used in discounting for dealers paper evidencing the sale of goods on an installment basis and that the note of the finance company at the time of discount has a maturity of ninety days or less. Unless

12/4/37

-6-

"it fails to comply with the requirements as to eligibility in some other respect, therefore, the note would appear to be eligible for discount.

"Your counsel indicates that his difficulty in considering the question of eligibility of finance company paper for discount arises out of the fact that under section 2(d) of Regulation A obligations of businesses principally engaged in extending credit on an installment basis and in substantial accordance with the recommendations contained in the appendix to the regulation are included among the preferred classes of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act. It may be pointed out in this connection, however, that not all paper of finance companies is eligible for discount under section 1 of the regulation. For example, if the proceeds of the note of a finance company are not used for a commercial purpose or if it has a maturity at the time it is offered for discount in excess of that prescribed by the regulation, it may not be discounted. On the other hand, such paper may in any event be utilized as security for an advance under section 10(b) if satisfactory to the Federal Reserve bank.

"Your second question is whether a certificate from a finance company whose paper is offered for discount, which states the use of the proceeds of such paper and which is corroborated by the financial statement of the company, would be sufficient evidence of the use of the proceeds of the paper offered for discount.

"When a finance company's note is offered for discount, if a certificate is obtained from the company that the proceeds of the note have been used or are to be used for some commercial purpose which is specifically stated in the certificate, and this is corroborated by the financial statement of the finance company, it would seem that the Federal Reserve bank, unless it has some reason to believe that the statement in the certificate may not be correct, would be justified in regarding the paper as issued for an eligible purpose. With respect to notes of finance companies the character of whose business is well known and whose paper is widely distributed, available information obtained from financial statements or otherwise may be sufficient to satisfy the Reserve bank that the paper offered is issued for an eligible purpose without the necessity of obtaining a certificate of the kind referred to in your letter. As you know, Regulation A provides that 'a Federal Reserve bank shall take such steps as may be necessary to satisfy itself as

12/4/37

-7-

"to the eligibility of any paper offered for discount' and, accordingly, the question of what evidence of eligibility should be required is one for the determination of the Federal Reserve bank in the light of the circumstances of each case as it arises."

Approved unanimously.

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

"Thank you for your letter of November 16, 1937 detailing the changes which have been made in the form of letter of agreement covering correspondent relations between the Federal Reserve Bank of New York and foreign central banks. As stated in your letter, the changes do not affect the substance of the revised form of agreement as approved by the Board in its letter of August 9, 1937; but your advice in the matter is appreciated."

Approved unanimously.

Letter to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"There is inclosed a copy of a letter dated October 26, 1937, from Mr. C. K. Suderman, Vice President of the Midland National Bank, Newton, Kansas, addressed to the Comptroller of the Currency, which has been referred to the Board of Governors for reply, together with a copy of the Board's acknowledgment thereof.

"You will note that it is stated that the Newton Finance & Investment Company, which is an automobile financing concern, has been discounting its paper with the Midland National Bank for a number of years. Prior to January 1937 about 650 out of 800 shares of the common stock of this company were held by three executive officers of the Midland National Bank, but all but about 25 per cent of their combined holdings has been transferred to their wives, so that these executive officers themselves now hold less than a majority interest in the stock of the company. It is now proposed that the corporation be dissolved and a co-partnership established, giving to each common stockholder the same proportionate interest in the

12/4/37

-8-

"partnership as he now holds in the corporation. In other words, the three executive officers of the bank would have less than a majority interest in the partnership, but their wives would have more than a majority interest therein. Inquiry is made as to whether the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation 0 would restrict the member bank in discounting paper of the partnership.

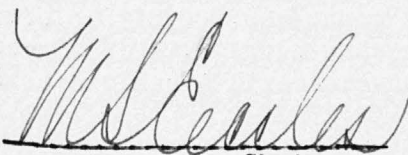
"As you know, section 22(g) of the Federal Reserve Act does not apply to loans by a member bank to a corporation even though an executive officer of the bank is a substantial stockholder in the corporation. Moreover, section 22(g) does not apply to loans by a member bank to a partnership except one in which executive officers of the bank are partners who have either individually or together a majority interest in the partnership. Therefore, the provisions of the Board's Regulation 0, issued pursuant to section 22(g), are not applicable to loans to a partnership in which executive officers of a bank do not in fact own a majority interest. In the case under consideration, the question whether the discounts for the financing company after its conversion into a partnership will come under the provisions of section 22(g) and the Board's Regulation 0 will depend upon whether the transfer by the executive officers of a substantial part of their interests to their wives was an actual bona fide transfer. A mere transfer for record purposes under arrangements whereby the executive officers actually have retained or will retain a majority interest in the organization would not be sufficient in the opinion of the Board to exempt loans to the partnership from the provisions of section 22(g) and the Board's Regulation 0.

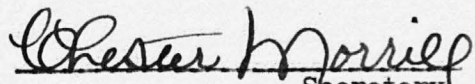
"It will be appreciated if you will reply to the letter from Mr. Suderman in accordance with the views of the Board as expressed above."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary