

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, January 12, 1938, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
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

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 January 11, 1938, were approved unanimously.

Bond, in the amount of \$100,000, executed under date of January 4, 1938, by Mr. James Hansel Merritt as Federal Reserve Agent at the Federal Reserve Bank of Dallas.

Approved unanimously.

Telegram to Mr. Stewart, Chairman of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the bank on January 11, 1938, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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Letter to Mr. Young, Secretary of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to your letter of January 7, 1938, the Board approves the reappointment of Messrs. Max Epstein, R. R. Monroe, G. Barrett Moxley and George W. Young, and the appointment of Mr. Walter Harnischfeger as members of the Industrial Advisory Committee for the Seventh Federal Reserve District to serve for terms of one year each beginning on March 1, 1938."

Approved unanimously.

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

"Reference is made to your letter of December 29, 1937, regarding the Citizens State Bank, Houston, Texas, and particularly to your inquiry in the last paragraph regarding condition of membership numbered 4 which reads as follows:

'Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.'

"You ask whether the Board wishes you to suggest to the bank a specific program of annual depreciation charges such as the Board would deem adequate to fulfill the requirements of the condition or whether the Board intended to leave the method of compliance with the requirements of the condition entirely to the judgment and determination of the bank's board of directors.

"Neither of the alternative procedures which you suggest was contemplated under the condition of membership. A similar condition has been prescribed generally for sometime in connection with applications for membership in order to emphasize the fact that banks should make adequate provision for depreciation in banking house and furniture and fixtures, and to furnish a basis for insistence, if necessary, upon such provision. While it is hoped that ordinarily the management of a bank subject to such a condition of membership will make proper provision for depreciation in accordance with sound banking practice and the terms of the condition of membership without having to have a specific program suggested by a Reserve bank, it is not contemplated that the method of complying with the condition will be left entirely and exclusively to the judgment and determination of the bank's management. On the contrary, if a bank subject to such a condition of membership fails to make adequate provision for depreciation, the Reserve bank should take appropriate steps to obtain

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"compliance with the condition. Of course, what is 'adequate provision' in any case depends upon all of the circumstances."

Approved unanimously.

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

"This refers to your letter of November 22, 1937, inclosing a copy of an agreement between the Southern Arizona Bank and Trust Company and the trust officer of that bank covering the pledge of securities as collateral to trust funds deposited by the trust department of the institution in its banking department. You call attention to the fact that the Superintendent of Banks of Arizona has given his consent on behalf of the State of Arizona to the execution and compliance with the terms of such agreement. You recommend that the pledge of collateral under such agreement be accepted temporarily by the Board as satisfactory compliance with the condition of membership to which the Southern Arizona Bank and Trust Company is subject with reference to the pledge of securities to secure trust funds deposited in the institution's banking department.

"While the agreement evidences a desire on the part of the bank to comply with the condition of membership, in view of the uncertainty as to the legal right of the bank to pledge collateral with its trust department to secure the deposit of trust funds, it is doubtful whether the agreement can be regarded as satisfactory compliance with the condition even though the State Superintendent of Banks has consented on behalf of the State to the agreement. In view of all of the circumstances, however, the Board will not press for further action at this time with respect to the compliance with the condition pending developments with regard to legislation to be sought at the next regular session of the State legislature to remove the uncertainty as to the right under the laws of the State of Arizona of a State bank to comply with the condition of membership through a valid pledge of securities."

Approved unanimously.

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

"Retel January 11. Board of Governors approves action of Committee of your Board of Directors on Foreign Relations in

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"authorizing on that date officers of your bank to make, at any time and from time to time, a loan or loans to National Bank of Nicaragua, Inc., Managua, Nicaragua, the amount of such loan or loans not to exceed at any one time \$300,000, and such loan or loans to mature not later than May 31, 1938, to bear interest at the discount rate of your bank, to be secured by refined gold bars earmarked in vaults of your bank having a value equal to at least 111% of the aggregate amount under loan at any one time, and otherwise to be made on such terms and conditions as the officers of your bank may determine. It is noted that the authority was granted in the form indicated for the reasons set forth in your letter to the Board of Governors of August 28, 1936, in connection with a request for a similar loan by the same bank. Participation in such loan or loans by other reserve banks is also approved, and they are being advised by letter accordingly."

Approved unanimously.

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

"This refers to Mr. Gough's letter of December 16, 1937, requesting a ruling on the question whether the provisions of section 22(g) of the Federal Reserve Act are applicable to executive officers of member banks who execute Commodity Credit Corporation notes on cotton.

"It appears from the inclosures transmitted with Mr. Gough's letter that a producer of cotton desiring to obtain a loan on cotton on the forms prescribed by the Commodity Credit Corporation may deal directly with any bank or lending agency. The borrower executes a loan agreement which provides that he shall remain liable to the holder of the note for any deficiency only in the event that he does not reduce cotton acreage or production in accordance with the provisions of an agricultural conservation program offered by the Secretary of Agriculture pursuant to certain provisions of law, or has made any misrepresentation in connection with the loan, or in the event of a breach of warranty contained in the loan agreement. It is also provided that any holder of a note may declare it immediately due and payable if the price of cotton goes above a certain stated amount, upon discovery that the maker has made any misrepresentation in connection with the loan, upon any breach of warranty in the loan agreement, upon any failure on the part

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"of the maker to comply with agreements in connection with a conservation program, or upon the filing by the maker of a petition in bankruptcy or for the composition or extension of debts under the Bankruptcy Act. In these circumstances, it appears that there is a contingent liability on the part of the maker of such a note.

"The definition of the term 'loan' contained in section 1(c) of the Board's Regulation O includes a contingent liability, and, accordingly, it is the view of the Board that the liability of an executive officer of a member bank as maker of a note on the form prescribed by the Commodity Credit Corporation representing a loan on cotton falls within the provisions of the Board's Regulation O.

"In this connection, it is appropriate to state that the Board was furnished with a copy of a letter written by the Assistant Attorney General to the United States Attorney at Savannah, Georgia, under date of February 14, 1935, in which the view was stated that there is a contingent liability on the part of the borrower on loans made on Commodity Credit Corporation forms (which, it is understood, were at that time similar to the present forms) and that such liability was sufficient to bring the case within the scope of section 22(g) of the Federal Reserve Act as it then existed."

Approved unanimously.

Thereupon the meeting adjourned.

Cheser Morise  
Secretary.

Approved:

W. S. Coates  
Chairman.