A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, January 28, 1938, at 3:00 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Morrill, Secretary
Mr. Bethea, 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 27, 1938, were approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, Messrs. Young, Stewart and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis and Minneapolis, respectively, Mr. McKinney, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on January 25, by the Federal Reserve Banks of New York, Richmond, Chicago, St. Louis, Minneapolis and Dallas on January 27, 1938, and by the Federal Reserve Bank of St. Louis.
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Bank of Atlanta today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated January 26, 1938, from Mr. Smead, Chief of the Division of Bank Operations, submitting letters dated January 10 and 24 from Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, which requested approval by the Board of changes in the personnel classification plan of the bank to provide for the creation of the new position of "General Clerk" and the discontinuance of the position of "Supervisor of Credits", both in the Loans and Re-discounts Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Letter to the board of directors of "The Farmers State Bank", Lexington, Nebraska, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following additional conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City:

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

"5. Prior to admission to membership, such bank, if it
"has not already done so, shall charge off or other-
wise eliminate estimated losses of $880 as shown in a
report of examination of such bank as of December 1,
1937, made by an examiner for the Federal Reserve
Bank of Kansas City."

Approved unanimously, together with
a letter to Mr. Hamilton, President of the
Federal Reserve Bank of Kansas City, read-
ing as follows:

"The Board of Governors of the Federal Reserve System
approves the application of 'The Farmers State Bank', Lex-
ington, Nebraska, for membership in the Federal Reserve Sys-
tem, subject to the conditions prescribed in the inclosed
letter which you are requested to forward to the board of
directors of the institution. Two copies of such letter are
also inclosed, one of which is for your files and the other
of which you are requested to forward to the Superintendent
of Banks of the State of Nebraska for his information.
"It has been noted that your counsel has pointed out
that the bank's Articles of Incorporation, as amended by
the stockholders on May 26, 1934, provide that the number
of its directors shall be 'not less than three, nor more
than fifteen.' As you know, under the provisions of sec-
tion 31 of the Banking Act of 1933, as amended, the direc-
torate of a State member bank shall consist of not less
than five nor more than twenty-five members. While it ap-
ppears that The Farmers State Bank had five directors at
the time of the examination for membership, it is sug-
gested that you call its attention to the provisions of
section 31 and to the desirability of taking such action
as may be appropriate to provide for a minimum of at least
five directors in order to avoid the possibility of any
violation of such provisions in the future."

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

"This refers to your letter of December 10, 1937, and
inclosures, and our acknowledgment of December 13, 1937,
with regard to the question whether executive officers of
a member bank who are indebted to it on account of loans
made prior to June 16, 1933, will be subject to removal
"under the provisions of section 30 of the Banking Act of 1933 in the event that such loans are not paid or otherwise discharged or reduced to an amount not exceeding $2500, on or prior to June 16, 1938.

"Section 22(g) of the Federal Reserve Act provides that loans made to any executive officer prior to June 16, 1933, may be renewed or extended for periods expiring not later than June 16, 1938, and it is clear that no such loan may lawfully be renewed or extended for a period expiring thereafter. Accordingly, if such a loan, which has been renewed or extended since June 16, 1933, is not paid or otherwise discharged or reduced to $2500 on or before June 16, 1938, it will thereafter be in default, and the member bank will be expected in accordance with sound practice to make every effort which is feasible in the circumstances of the case to collect the loan. Moreover, any deferment of the date of payment of the loan through an express or implied understanding or course of action followed by the parties or a failure of the bank to exert all reasonable efforts to collect the loan might constitute an extension of the loan by the bank, by acquiescence or agreement, in violation of the statute, which would subject the bank and its officers and directors to the penalties provided by the law. In any case in which any such loan is still outstanding and uncollected in whole or in part after June 16, 1938, the burden will be upon the member bank to satisfy the examiner and the supervisory authorities that all reasonable steps to collect the loan have been and are being taken or that any such steps would be futile."

Approved unanimously.

Memorandum from Messrs. Morrill, Parry, Paulger and Wyatt stating that the staffs of the Federal Deposit Insurance Corporation and the Comptroller of the Currency had informally received the question of what procedure should be followed in connection with possible violations of Regulation U discovered in examining the banks under their supervision; that similar questions arise in connection with Federal reserve bank examinations of State member banks; and that at
a conference of members of the Board's staff it was decided to recommend the following general principles to the Board for such procedure, and to request the Board to authorize the staff to negotiate informally with the Federal Deposit Insurance Corporation and the Comptroller of the Currency with a view to obtaining agreement on such procedure:

1. Compliance should be obtained so far as possible by persuasion, and a bank should not be burdened with legal proceedings unless it shows that it is not amenable to other methods of correction.

2. Investigation of banks by the Securities and Exchange Commission, which has certain broad enforcement powers under the Securities Exchange Act of 1934, should be avoided so far as possible.

3. Examiners and bank supervisory authorities should, in general, follow the same procedure as in violations of other banking laws such as those relating to interest on deposits or purchase of securities.

4. Examiners should report to the Comptroller, the F.D.I.C. and the Federal Reserve banks, as the case may be, and these agencies should come to the Board for interpretation whenever they feel the need to do so.

5. When a case reaches a point where legal proceedings should be instituted, the Federal Reserve banks should report directly to the Board for the Board to refer the case to the Securities and Exchange Commission or the Attorney General, depending upon whether civil (injunction) or criminal action is desirable; and the Comptroller and the F.D.I.C. should report directly to the Securities and Exchange Commission or the Attorney General, in accordance with their own judgment as to whether civil or criminal action is desirable, and should send copies of their reports to the Board for its information.

The suggested procedure was approved unanimously, and the staff was authorized
to negotiate informally with the Federal Deposit Insurance Corporation and the Comptroller of the Currency with a view to obtaining agreement on such procedure.

Thereupon the meeting adjourned.

Approved: 

Chairman.