

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, February 17, 1938, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
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:

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"This refers to your letter of February 12, 1938, advising the Board that your board of directors has unanimously decided, subject to the approval of the Board of Governors, to employ Dr. E. A. Kincaid on a full time basis for a period to begin between June 15 and July 1, 1938, and to terminate between September 1 and September 15, 1939, at a salary of \$7,500 per annum.

"In accordance with the action taken by your directors, the Board approves the employment of Dr. Kincaid during the period mentioned above at a salary of \$7,500 per annum. It is understood Dr. Kincaid's primary duties will be to organize and direct the work of the Research and Statistics Department."

Approved unanimously.

Letter to Mr. Keesee, Secretary of the Federal Reserve Bank of Richmond, reading as follows:

"Referring to your letter of February 11, 1938, the Board approves the reappointment of Messrs. J. G. Holtzclaw,

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"Walker D. Stuart, Overton D. Dennis, George E. Probest, Jr., and William L. Manning as members of the Industrial Advisory Committee for the Fifth Federal Reserve District, to serve for terms of one year each, beginning on March 1, 1938."

Approved unanimously.

Letter to Mr. McCravey, Secretary of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your letter of February 12, 1938, the Board approves the reappointment of Messrs. A. M. Lockett, I. C. Milner, John E. Sanford and George Winship as members of the Industrial Advisory Committee for the Sixth Federal Reserve District, to serve for terms of one year each, beginning on March 1, 1938.

"From your letter it is noted that the appointment of a successor to Mr. A. R. Forsyth, who has become disqualified by reason of his retirement from active business, has been postponed until a subsequent meeting of your Board."

Approved unanimously.

Letter dated February 16, 1938, to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of February 9, 1938, regarding the eligibility of Mr. Paul R. McCoy to serve as a director of the Little Rock Branch of the Federal Reserve Bank of St. Louis while serving as a member of the Arkansas State Game Commission.

"It is understood that, under the provisions of the Arkansas statutes, the State Game and Fish Commission, which presumably is the same as the State Game Commission, consists of the Professor of Zoology of the University of Arkansas and seven other members appointed by the Governor of the State. It is also understood that the principal function of the Commission is to enforce and administer the laws for the protection of the State's wild life resources and that all of the members of the Commission are required to serve without pay, except that it is provided that when sufficient funds have been derived from license

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"fees and other sources of revenue provided by the statute the members of the Commission shall be paid their actual expenses in attending to the business of the Commission.

"It is noted that you and your Counsel are of the opinion that the service of Mr. McCoy would not be in violation of the Board's resolution of December 23, 1915, relating to the holding of political office by directors or officers of Federal Reserve banks.

"In the circumstances, the Board would offer no objection to Mr. McCoy's continuing to serve as a director of the Little Rock Branch of your bank if he should be appointed a member of the State Game and Fish Commission."

Approved unanimously.

Letter to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Inclosed herewith is a copy of a letter of February 8, 1938, from the law firm of Shutts & Bowen, Miami, Florida, presenting the question whether a national bank in Florida, to which the Board has granted permission to exercise trust powers but which is not exercising and has never exercised such powers, is required to deposit securities with the State authorities. It is stated that, in such circumstances, the State authorities have demanded that a national bank, a client of Shutts & Bowen, make the deposit of securities which is required of State corporations possessing trust powers.

"It appears that the Board has not had occasion heretofore to rule expressly upon this question. However, the pertinent provisions of section 13 of Regulation F assume that, although a national bank has received the Board's permission to exercise trust powers, the law does not require the bank to deposit securities with State authorities if it does not actually undertake to exercise such powers. It is believed that this clearly is the correct interpretation of the pertinent provisions of section 11(k) of the Federal Reserve Act which read as follows:

'Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits

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"and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law." (Underscoring supplied.)

"It will be appreciated if you will give Shutts & Bowen such advice as you deem appropriate in the circumstances. They have not been advised of this reference."

Approved unanimously.

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

"This refers to your letters of January 17 and 21, 1938, and their inclosures, relating to the sale of the stock of Bankamerica Company by Transamerica Corporation to Western States Corporation.

"It will be appreciated if you will request Transamerica Corporation to advise you whether it or any of its subsidiaries has any interest in or controls in any manner, Western States Corporation and, if so, to furnish complete information concerning the nature and extent of such interest or control. Such information should include, but not be limited to, the facts concerning the number of shares of each class of stock of Western States Corporation owned or controlled by Transamerica Corporation or any of its subsidiaries, the extent of rights or options held by any such organization entitling it to purchase stock of Western States Corporation, and the number of shares of each class of stock and the extent of any rights or options outstanding. Please advise the Board upon receipt of a reply to such request."

Approved unanimously.

Letter to Mr. Walter Bachrach, Chicago, Illinois, reading as follows:

"Reference is made to your letter of February 7, 1938, addressed to Mr. Parry, Chief of the Board's Division of Security Loans, regarding the meaning of the term 'creditor' as used in the provisions of Regulation T which relate to guarantees.

"As stated in our letter of February 2, 1938, the use

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"of the term 'creditor' is merely an abbreviated method of referring to the persons covered by this term under the definition contained in section 2(b) of the regulation. This definition does not depend upon whether the persons so defined extend credit to anyone either directly or indirectly, and the term 'creditor' as used in section 6(c) of the regulation relating to guarantees should be read as if there were substituted for this word the definition contained in section 2(b), i.e., 'any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member'.

"Perhaps we may make the meaning of the term clearer by saying that when the word 'creditor' is specifically defined in section 2(b) of Regulation T and then used in section 6(c), the meaning which the word might otherwise have is of no more significance than if some other word such as 'broker', 'dealer', 'person subject to Regulation T', or some coined expression, had been so defined and used in place of the term 'creditor'.

"We are forwarding to the Federal Reserve Bank of Chicago the copy of your letter which you inclosed for that purpose and also a copy of this letter."

Approved unanimously.

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

"This refers to your letter of January 14, 1938, requesting a ruling with respect to the increase of the indebtedness of Mr. H. N. Elmquist, Cashier of the Warren Bank and Trust Company, Warren, Pennsylvania.

"It is understood that at the time the Warren Bank and Trust Company was admitted to membership Cashier Elmquist was indebted to such bank in the amount of \$5,101. Such indebtedness is not subject to the provisions of section 22(g) of the Federal Reserve Act since it was incurred prior to the time the bank became a member. It appears, however, that subsequently Cashier Elmquist's indebtedness to the bank was increased by approximately \$3,000 through the acquisition by the bank of an obligation held

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"by the trustees of the Warren Savings Bank and Trust Company, in liquidation, and that it is the contention of the Warren Bank and Trust Company, as well as its attorney, that this transaction does not fall within the provisions of section 22(g) and Regulation O, since it constitutes an 'exchange of assets' as contemplated in the agreement between the member bank and the liquidating trustees of the Warren Savings Bank and Trust Company.

"In connection with this matter, the provisions of section 1(c)(2) of Regulation O define the terms 'loan' and 'extension of credit' to include -

'The acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety.'

In the circumstances, it would seem that it is immaterial whether the member bank purchased the obligation in question or acquired it through an exchange of assets. Accordingly, it is the view of the Board that the acquisition by the bank of the obligation of Cashier Elmquist is in violation of section 22(g) of the Federal Reserve Act and the Board's Regulation O. Moreover, as long as Mr. Elmquist is indebted to his member bank in an amount in excess of \$2,500, any further increase in his indebtedness is not permissible under the law or regulation unless such increase is for the purpose of protecting such bank against loss or giving financial assistance to it.

"It will be appreciated if you will advise the Warren Bank and Trust Company accordingly."

Approved unanimously.

Letter dated February 16, 1938, to Honorable William Lemke,

House of Representatives, reading as follows:

"This refers to your letter of January 21, 1938, regarding the application of the First Investment Corporation, Minot, North Dakota, for an industrial advance from the Federal Reserve Bank of Minneapolis. As indicated in our letter of January 28, 1938, we have communicated with the Federal Reserve Bank of Minneapolis and have obtained additional information with reference to this application.

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"As you are aware, section 13b of the Federal Reserve Act authorizes the Federal Reserve banks, subject to such regulations as the Board of Governors may prescribe, to make loans to 'an established industrial or commercial business * * * for the purpose of providing it with working capital'. The regulation issued by the Board of Governors under this section leaves the powers granted by Congress to the Federal Reserve banks wholly unimpaired and prescribes no restrictions beyond those contained in the law itself. An attempt to prescribe technical definitions of such terms as 'working capital' and 'established commercial or industrial business' has been avoided, lest it have the effect of restricting and hampering the operations of the Federal Reserve banks under the statute. The regulations, therefore, contain practically nothing except an analysis of the law and an outline of the necessary procedure.

"However, Congress has seen fit to require that advances under this law be made on a reasonable and sound basis for the purpose of furnishing working capital to an established industrial or commercial business and the Federal Reserve banks must, of course, observe these requirements in making such advances. These restrictions which are imposed by the law itself are matters as to which neither the Board of Governors nor the Federal Reserve banks have authority to exercise discretion.

"It appears from the information at hand that the First Investment Corporation is engaged in the business of selling, managing, insuring, and making loans on, real estate, in addition to the business of a building operator in constructing houses for sale. It is also understood that the \$25,000 loan applied for is sought for the principal purpose of financing the construction of new dwellings for sale. In view of these circumstances, the counsel for the Federal Reserve Bank of Minneapolis reached the conclusion that the loan applied for would not be for the purpose of providing working capital to an established industrial or commercial business. In addition, we are advised by the Federal Reserve Bank of Minneapolis that the loan could not be granted for credit reasons.

"The Federal Reserve banks have been given full authority to pass upon applications for industrial loans and it is not the practice of the Board of Governors to determine whether or not such loans may or should be granted in particular cases. It appears from the report made by the

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"Federal Reserve bank to the Board of Governors that this application has received careful consideration. In these circumstances there appears to be no basis for further action by the Board of Governors.

"In accordance with your request, the file inclosed with your letter is returned herewith."

Approved unanimously, together with a similar letter dated February 16, 1938, to Mr. W. G. Connors, President, First Investment Corporation, Minot, North Dakota.

Thereupon the meeting adjourned.

Robert Morrie
Secretary.

Approved:

W. C. ...
Chairman.