

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 22, 1938, at 10:30 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of
Examinations
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Parry, Chief of the Division of Security
Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division
of Examinations
Mr. Williams, Assistant Counsel

Mr. Ransom stated that the clerk of the Banking and Currency Committee of the House of Representatives called Mr. Thurston on the telephone yesterday and advised him that the Committee had decided to extend an invitation to the members of the Board to testify next week at the hearings being conducted by the Committee on Bill H.R. 7230, introduced by Mr. Patman under date of May 25, 1937, providing for Government ownership of the twelve Federal reserve banks and for other purposes.

After a discussion of the matter, it was agreed that Mr. Ransom should advise

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the clerk of the Banking and Currency Committee of the House of Representatives by telephone that Chairman Eccles was out of the city and was expected to return early next week and that it would be appreciated if the appearance of a member of the Board at the hearings could be deferred until that time. It was also understood that Mr. Ransom would advise Chairman Eccles by letter today of this agreement.

At this point Messrs. Thurston, Wyatt, Paulger, Goldenweiser, Smead, Parry, Dreibelbis, Leonard and Williams left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letter dated March 19, 1938, to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"This is in response to your letter of February 18, 1938, requesting the Board's approval of the appointment of Mr. Isador Levin, of Detroit, as Associate Counsel for the Detroit Branch for the current year.

"Although your letter states that Mr. Levin was appointed 'on the same basis of compensation, namely, a per diem basis', the Board understands that the title of Associate Counsel is largely honorary, that Mr. Levin is to receive no retainer, that no fixed per diem has been agreed upon, and that it is contemplated that, if Mr. Levin is called upon to render any services, his bill will be submitted for approval by the board of directors of the Federal Reserve Bank before being paid.

"In these circumstances, it would seem that no action by the Board of Governors is required at this time and that the matter should be handled in accordance with the Board's letters of February 15, 1926 (X-4531) and April 15, 1936 (X-9548), under the terms of which the Federal Reserve Bank should obtain an agreement from Mr. Levin that any fee in

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"excess of \$1,000 will be subject to final review and approval by the Board of Governors and that, before paying any fee which, together with other fees already paid during the same year would exceed \$1,000, the Bank should submit the same to and obtain the approval of the Board of Governors."

Approved unanimously.

Memorandum dated March 19, 1938, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated March 16 from Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, which requested approval by the Board of changes in the personnel classification plan of the New Orleans branch of the Atlanta bank to provide for the creation of the new positions of "Mail Clerk" and "Captain of the Guard", and for the discontinuance of the position of "Guard-Clerk", all in the Service Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

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

"Receipt is acknowledged of your letter of March 15, 1938, recommending a modification of the requirement contained in condition of membership numbered 7 which has been prescribed for The Union Bank of Commerce Company, Cleveland, Ohio, pertaining to the court approval of the plan of re-organization of The Union Trust Company, also of Cleveland, under which the subject bank is to be organized. This requirement provides that, prior to the bank's admission to membership, the plan shall have been approved

'by an order of the Court of Common Pleas of Cuyahoga County of the State of Ohio which has become finally effective and is not subject to review by the Appellate Courts of that State or to a restraining order under the statutes of that State.'

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"It is understood that, as of March 5, 1938, consents to the plan had been obtained from depositors representing 90.4 per cent of the deposits of The Union Trust Company and from stockholders representing 92.7 per cent of its stock on which assessments have been paid in full, and that the Court of Common Pleas has approved and entered an order authorizing the State Superintendent of Banks to consummate the plan. It is understood further that, pursuant to permission granted by the Ohio statutes, two suits were filed requesting a restraining order preventing the Superintendent from consummating the plan, but that the court has denied the relief thus prayed for.

"While it appears that it is possible to appeal this decision to the Court of Appeals and Supreme Court of Ohio and to the United States Supreme Court, your counsel, who concur in your recommendation, have advised that there is virtually no possibility of the decision being overruled in any appellate court, and that, if an appeal is taken, a considerable period of time must elapse before it could be finally adjudicated. It is noted also that two different counsel for the Special Deputy Superintendent of Banks have expressed the opinion that these suits are without merit and have advised him to proceed with the consummation of the plan which must be accomplished by April 15, 1938, unless additional time is granted by the court.

"In the circumstances, the Board will consider the approval given to the plan by the Court of Common Pleas as a compliance with the requirement contained in that part of condition of membership numbered 7 quoted above."

Approved unanimously.

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

"This refers to your letter of March 7, 1938, and inclosure, presenting the question whether amounts carried by The Anglo California National Bank of San Francisco in an account called 'Special Reserve, Contracts Department' constitute deposits against which reserves are required to be carried with the Federal Reserve Bank of San Francisco.

"You state that the national bank examiners have raised

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"the question as to whether the amounts should not be treated as demand deposits subject to reserves rather than as 'other liabilities.' You further state that, since the release of the funds appears conditional, they being held to indemnify the bank in case of loss in its dealings with certain borrowers, and since a substantial portion of such funds reverts to the bank, you are inclined to the opinion that the items may properly be classified as 'other liabilities.'

"It is understood that the account arises from the bank's installment financing activities wherein it makes an arrangement with an automobile dealer or other similar dealer to discount his contracts with the understanding that out of the proceeds of each contract a certain amount will be set aside in a reserve fund and will not be paid to the dealer until the contract from which it arose is paid in full; that all such amounts are available to the bank to cover losses sustained in the collection of any or all such contracts discounted for the dealer and may be applied by the bank against any other indebtedness incurred by the dealer; and that in actual practice half or less of such amounts is paid to the dealer, as losses generally consume some portion of the amounts and other portions are applied against other indebtedness of the dealer. Although it does not appear from your letter, it is assumed that the amounts held in the special reserve account are not segregated but are commingled with the other assets of the bank.

"As you know, in a ruling published at page 572 of the Federal Reserve Bulletin for May, 1922, the Board laid down the 'broad rule that all funds received by a bank in the course of its commercial or fiduciary business must be treated either as deposits against which reserves must be carried, or as trust funds subject to the ordinary restrictions and safeguards imposed upon the custody and use of trust funds'. In that ruling it was made clear that even in the case of trust funds, if they were not segregated from the bank's other assets but were mingled with the bank's general funds, a deposit liability would be created against which reserves must be carried. This position was recently affirmed in the ruling published at page 113 of the February, 1937, Bulletin and in the ruling published at page 391 of the May, 1937, Bulletin. In the light of the principles stated in these rulings and on the basis of our understanding of the facts as stated above, it is the view of the Board of Governors that amounts carried in the special reserve account under consideration are deposits against which reserves are required to be carried

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"with the Federal Reserve bank.

"The fact that amounts carried in the special reserve account may not be withdrawn by the dealer and probably will be used by the bank at least in part to cover losses on the discounted paper or other indebtedness of the dealer is believed not to be a controlling consideration. In this connection, your attention is invited to the Board's letter of February 5, 1938 (S-72), which reaffirmed the position taken in a ruling published at page 538 of the Bulletin for September, 1931, to the effect that amounts carried in accounts opened to secure the payment of personal loans were deposits for reserve purposes, even though they could not be withdrawn by the depositor but were to be used solely for the purpose of paying the amount of the personal loan.

"The question whether amounts carried in a special reserve account are demand deposits or time deposits will, of course, depend upon whether or not the agreement or arrangement under which the funds are held complies with the definitions in section 1 of Regulation D. In this connection, your attention is invited to the fact that all deposits which do not comply with the definitions of time deposits constitute demand deposits.

"As heretofore stated, the Board's ruling in this case is based upon our understanding of the facts as set forth above, but if there should be any material variation between the actual facts and our understanding of them, the matter may require further consideration."

Approved unanimously.

Letter dated March 21, 1938, to Mr. Sihler, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letters of February 9 and March 2, 1938, regarding a question which has arisen under Regulation T. The question which you present may be restated as follows:

A customer has an account in which the adjusted debit balance exceeds the maximum loan value of the securities and in which there is required under Regulation T the deposit of \$2,500 in connection with a transaction on a preceding day. The account includes a short

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"position of 100 shares of X stock having a current market value of \$5,000. The customer deposits with the creditor 100 shares of X stock to be delivered against the short position, and requests the creditor to permit him to withdraw on the same day \$5,000 in cash. There are no other transactions in the account on the given day, and the \$2,500 deposit is the only one required in the account because of any transactions on any previous day. May the creditor permit such withdrawal?

"It is the view of the Board that in the circumstances stated, the receipt of 100 shares of X stock in the account to be delivered against the short position has the effect of reducing the adjusted debit balance of the account by \$5,000 (the market value of the securities short) plus \$2,500 (the margin required on the short position under the present supplement to Regulation T), or \$7,500, while leaving unchanged the maximum loan value of the securities in the account. The creditor may, if he desires, treat the receipt of securities as consisting of two portions. One portion may be considered to be a 'covering or other liquidating' transaction effected in the account for the purposes of section 3(e), in lieu of the deposit of \$2,500 in connection with the transaction on the preceding day; and the remaining portion may be considered to be a deposit of securities in connection with a withdrawal. On this basis, the creditor may permit the withdrawal from the account on the given day of \$5,000 in cash."

Approved unanimously.

Letter dated March 19, 1938, to Mr. McCravey, Secretary of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your letter of March 15, 1938, to Mr. Morrill, the Board notes without objection that it is planned to hold the regular April meeting of your board of directors at Birmingham on April 8 and the regular May meeting at Nashville on May 13 and 14."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Frank Johnson
Vice Chairman.