

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 29, 1938, at 11:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Davis

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Letter to Mr. John M. Daiger, Financial Adviser, Federal Housing Administration, reading as follows:

"Receipt is acknowledged of your letter of September 16, 1938, addressed to Mr. Thurston, inquiring as to the effect of the following condition of membership, which the Commerce Union Bank, Nashville, Tennessee, accepted at the time of its admission to membership in the Federal Reserve System, upon the bank's mortgage loan operations:

'Such bank shall not engage as a business in issuing or selling either directly or indirectly (through affiliated corporations or otherwise) notes, bonds, mortgages, certificates, or other evidences of indebtedness representing real estate loans or participations therein, either with or without a guarantee, indorsement, or other obligation of such bank or an affiliated corporation.'

"This condition of membership does not prohibit the bank from making loans upon the security of real estate. Matters of this kind are governed by the provisions of the State law. However, the condition does prohibit the bank from engaging as a business in issuing or selling, either directly or indirectly, notes, bonds, mortgages, certificates, or other evidences of indebtedness representing real estate loans or participations therein. This was the type of business which the condition required the bank to dispose of upon its admission to membership in the System, and you will note from section 6 of the inclosed copy of the Board's Regulation H, as revised effective January 1, 1936, covering the 'Membership of State

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"'Banking Institutions in the Federal Reserve System', that the condition is a standard condition which the Board uniformly prescribes for all State banks joining the System.

"The condition was adopted as a standard condition in the interest of sound banking as it was recognized that the liability to repurchase mortgage loans has proved harmful, if not disastrous, to many banks. Even in the case of loans sold without recourse, it was also recognized that, although the banks may have been under no legal liability in transactions of this kind, the public in many cases assumed the existence of a moral responsibility on the part of the selling bank and did so even in cases where the sales had been made through associated corporations. In some instances, great difficulty was experienced by the banks which found it advisable to recognize the responsibility and to repurchase mortgages which had gone into default or otherwise proved unsatisfactory, and in other cases embarrassment and loss of confidence resulted if demands for reimbursement by the investors were refused. You will observe, however, that footnote numbered 11 to this condition provides that the requirements thereof do not apply to the sale of mortgages covered by insurance under the provisions of the National Housing Act. The Board has also taken the position that the condition does not prohibit the sale in one or more isolated cases of a note secured by a mortgage, but, as stated above, prohibits a State member bank from engaging in the business of issuing or selling notes of this character."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"In accordance with the request contained in your letter of September 26, 1938, the Board authorizes your bank to waive the assessment of penalties for deficiencies in reserves of member banks in those cases where deficiencies are determined to have resulted from the interruption to mail and wire services occasioned by the recent storm and flood conditions' in your district.

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"It will be appreciated if you will advise the Board after conditions again return to normal of the amount of penalties for deficiencies in reserves of member banks waived by your bank."

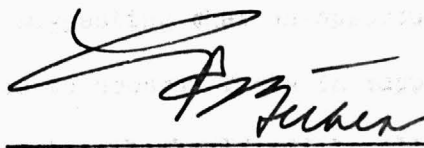
Approved unanimously.

Letter to Mr. Fleming, Chairman, Presidents' Conference Committee on Free Services, reading as follows:

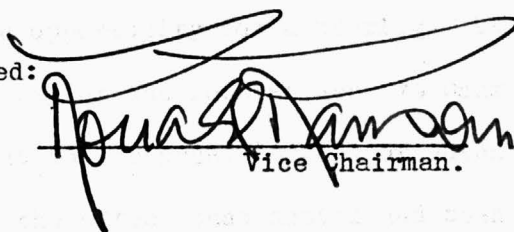
"In response to your letter of September 20, 1938, Counsel for the Board of Governors has prepared an opinion upon the question whether Federal Reserve banks may charge for their services as custodians of collateral deposited in lieu of sureties on bonds securing bankruptcy funds pursuant to the provisions of section 61 of the Bankruptcy Act, as amended. In accordance with your request, a copy of this opinion is inclosed herewith."

Approved unanimously.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Vice Chairman.