

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 16, 1941, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis  
Mr. Draper

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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 14 and 15, 1941, were approved unanimously.

Memorandum dated January 15, 1941, from Mr. Parry, Chief of the Division of Security Loans, submitting and recommending the adoption of a proposed amendment to the Board's Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, the principal purpose of which, as indicated in the Board's letter of December 7, 1940 to the Federal Reserve Banks, was to reconcile provisions of Regulation U with rules recently issued by the Securities and Exchange Commission to become effective on February 17, 1941, with respect to the hypothecation by brokers or dealers of securities carried by them for the account of customers. The memorandum also recommended that the proposed amendment

1/16/41

-2-

be made effective on February 17, 1941, with permission to any bank at its option to conduct its operations in accordance with the amendment prior to that date, and stated that the only banks that would have to adjust their procedure to the amendment were banks which make loans to brokers and dealers, and of these the New York banks chiefly affected had already taken preliminary steps on the basis of the preliminary draft of the amendment which they had seen and discussed with members of the Board's staff. The further statement was made in the memorandum that in preparing the amendment the Division of Security Loans had followed the usual procedure of consulting with representatives of all parties in interest and had taken into account in preparing the final draft the comments and suggestions made by them.

Thereupon the Board, by unanimous vote, adopted the following resolution:

RESOLVED, That Regulation U and the Supplement thereto are hereby amended in the following respects, and that such amendment shall become effective February 17, 1941, but any bank may, at its option, conduct its operations in accordance with such amendment at any time prior to that date:

1. Section 3 of Regulation U is amended by adding the following subsections at the end thereof:

"(m) Indebtedness 'subject to section 1' is indebtedness which is secured directly or indirectly by any stock, is for the purpose of purchasing or carrying any stock registered on a national securities exchange, and is not excepted by section 2.

"(n) In the case of any loan subject to section 1 to a broker or dealer in securities, and in the case of any such loan to any other borrower whose indebtedness the bank elects to treat for the purposes of this subsection as if it were

1/16/41

-3-

"that of a broker or dealer, the bank shall identify all the collateral used to meet the collateral requirements of section 1 and shall not cancel the identification of any part thereof except in circumstances that would permit the withdrawal of that part. Such identification may be made by any reasonable method.

"In any such case --

(1) Only the collateral so identified shall have loan value for purposes of section 1 or be subject to the restrictions therein specified with respect to withdrawals and substitutions; and

(2) For any indebtedness of the same borrower that is not subject to section 1 (other than a loan described in section 2(d), (f), (g), or (h)), the bank shall in good faith require as much collateral not so identified as the bank would require (if any) if it held neither the indebtedness subject to section 1 nor the identified collateral. This rule shall not be construed, however, to require the bank, after it has made any loan, to obtain any collateral therefor because of any decline in the value or quality of the collateral or in the credit rating of the borrower.

"(o) This subsection applies to any case in which indebtedness of a broker or dealer that is subject to section 1 is secured by any securities which, according to written notice received by the bank from the broker or dealer pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities (Rule X-8C-1 or Rule X-15C2-1), are securities carried for the account of one or more customers. For the purposes of this regulation --

(1) All such securities and all such indebtedness shall be considered separately from other collateral and indebtedness of the borrower;

(2) Only such securities shall have loan value for any such indebtedness; and

(3) All such indebtedness shall be considered a single loan and all such securities shall be considered in connection therewith, except that specified indebtedness, together with the securities treated by the bank as having loan value therefor, may be treated

1/16/41

-4-

"separately if such securities secure only such specified indebtedness and the borrower states in writing that they are carried for the account of a single customer."

2. The second paragraph of the Supplement to Regulation U is amended to read as follows:

"Loans to brokers and dealers. - Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a special maximum loan value of 75 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a broker or dealer from whom the bank (1) accepts in good faith a signed statement to the effect that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto), and (2) receives written notice, pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities by brokers or dealers (Rule X-8C-1 or Rule X-15C2-1), to the effect that the stock is a security carried for the account of a customer."

In connection with the above action unanimous approval was also given to a draft of statement for the press, prepared by the Division of Security Loans, for release in the afternoon papers of Friday, January 17, 1941, and to telegrams to the Presidents of all Federal Reserve Banks stating that the Board will reprint the regulation for distribution through the Federal Reserve Banks but that since the reprint would not be available immediately, the Banks were requested to print the amendment and press statement as promptly as possible and to distribute copies to all banks in their respective districts and to other interested persons.

Memorandum dated January 11, 1941, from Mr. Nelson, Assistant Secretary, recommending that, effective January 1, 1941, Mrs. Mary Diegelman, charwoman in the Building Operation and Maintenance Section of the Secretary's Office, be granted a leave of absence without

1/16/41

-5-

pay for a period of not to exceed 60 days, with the understanding that the Board will continue its contributions to the Retirement System on her behalf during the period of her leave of absence without pay and that she will also continue to pay her own contributions to the Retirement System during the same period. The memorandum stated that Mrs. Diegelman has been absent since December 26, 1940, on account of a major operation and will not be able to return to her duties until after February 15, 1941; that she had been granted  $4\frac{1}{4}$  days of advanced sick leave up to December 31, 1940; and that in the circumstances a further advance of sick leave was hardly warranted.

Approved unanimously.

Memorandum dated January 13, 1941, from Mr. Nelson, Assistant Secretary, recommending, for the reasons stated in the memorandum, that Beatrice Hunter's appointment as a clerk in the Correspondence and Publications Section of the Secretary's Office, be made permanent with salary at the rate of \$1,440 per annum, effective February 1, 1941, subject to her passing satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated January 11, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for the reason stated in the memorandum, that Edward Boorstein be appointed on a permanent basis as an economic assistant in the



1/16/41

-6-

Division of Research and Statistics, with salary at the rate of \$2,200 per annum, effective at the expiration of his temporary appointment at the close of business on February 5, 1941.

Approved unanimously.

Letter to the board of directors of "The Merchants Trust Company of Red Bank, N. J.", Red Bank, New Jersey, stating that, subject to conditions of membership numbered 1 to 6, inclusive, contained in the Board's Regulation H and the following special condition, 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 New York:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated asset losses of \$17,556 and make provision satisfactory to the Federal Reserve Bank for the \$6,500 contingent liability in the trust department, all as shown in the report of examination of such bank as of October 30, 1940, made by an examiner for the Federal Reserve Bank of New York."

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the powers to act as surety and to guarantee real estate titles. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the

1/16/41

-7-

"Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Merchants Trust Company of Red Bank, N. J.', Red Bank, New Jersey, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking & Insurance for the State of New Jersey for his information.

"The Supervising examiner for the Federal Deposit Insurance Corporation advised the Reserve Bank that it is the position of his office that any future retirements of preferred stock should be predicated upon the establishment of a reserve for dividends payable in common stock, and it has been noted that Mr. Gidney agrees with that position and indicates that the matter will be given appropriate consideration in connection with passing upon retirements of preferred stock."

Letter dated January 15, 1941, to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Boston, made as of November 8, 1940, by the Board's examiners, a copy of the report of examination was left for your information and the information of the directors. A copy was also furnished President Young.

"The report does not appear to contain any matters requiring further comment at this time. The Board will appreciate advice, however, that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

1/16/41

-8-

Mr. Draper suggested that the Board authorize the payment of the cost of luncheons served to Messrs. Robert L. Mehornay, Deputy Director, and Peter Nehemkis, Special Assistant in the office of Small Business Activities of the Defense Commission, and to Mr. Morris L. Cooke, of the Labor Division of the Commission, in the Board's dining room today.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morril  
Secretary.

Approved:

W. A. ...  
Chairman.