A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, January 9, 1945, at 10:30 a.m.

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

Mr. Morrill, 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 8, 1945, were approved unanimously.

Letter to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"Your letter of December 26, 1944 suggesting that the Board's policy of not appointing as a director of a Federal Reserve Bank or Branch a man who is 70 years of age or who would become 70 prior to the expiration of his term be extended to apply to all directors is logical, and I brought your letter to the attention of the Board's Personnel Committee.

"The Board, however, has no power to extend the policy to Class A and Class B directors. Such a policy could be made effective as to them only through legislation or through voluntary adoption. I believe that there are comparatively few cases where a Class A or Class B director is elected for a first term after he is 67, and the policy could be made generally effective as to Head Office directors if there were developed a general

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"understanding in the district that a director should not be nominated or permit himself to be entered as a candidate for reelection for a term which would begin after he had become 67.

"Of course, the directors of a Reserve Bank can make the policy effective with respect to their appointments of branch directors, and the Board of Governors could have made the policy applicable to all branch directors by amending the Board's regulations relating to branches of Federal Reserve Banks. This was, in fact, considered, but the Board preferred at this time not to take that approach, but to leave the policy with respect to their own appointees to the discretion of the boards of the Federal Reserve Banks. I am sure, however, that the Board would be pleased if the Reserve Banks should adopt the same policy with respect to the appointment of branch directors as the Board has adopted with respect to its appointments."

Approved unanimously.

Letter to the board of directors of the "Hunterdon County Trust Company", Califon, New Jersey, stating that, subject to conditions of membership numbered 1 to 3 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:

"4. To cover estimated loss through threatened litigation against the bank, classified as such in the report of examination of such bank as of October 21, 1944, made by an examiner for the Federal Reserve Bank of New York, such bank, prior to admission to membership, shall set up on its books a special reserve of not less than $5,000 which shall be maintained until the issues giving rise to the threatened litigation have been settled and which reserve shall not be included in the bank's capital account in reports of condition and published statements."

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The letter also contained the following special comment:

"It has been noted that the bank is authorized to exercise fiduciary powers but has been doing so only to a limited extent, that no new accounts have been accepted for the past several years, and that the management wishes to terminate present fiduciary responsibilities as soon as possible. In the circumstances, therefore, the application has been approved on the same basis as if fiduciary powers were not being exercised. It has been noted also that the bank may possess certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the powers to act as surety and to guarantee titles to real estate. Attention is called to the fact that if the bank should decide in the future to exercise fiduciary powers, other than to the limited extent necessary in administering the accounts now on its books until the proposed liquidation of the trust department can be completed, or 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 doing so. In this connection, the Board understands that there has been no change in the scope of corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, for transmission through the Federal Reserve Bank of New York.

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

"This refers to your letter of December 14, 1944, with its enclosure, requesting a ruling as to the maximum amount which the Louisiana Savings Bank and Trust Company, New Orleans, Louisiana, a State member bank, may lawfully loan to one borrower on the security of obligations of the United States, in view of the provisions of section 11(m) of the Federal Reserve Act.

"It is understood that under Louisiana law the maximum amount which a State bank may loan on an unsecured

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"basis is 20 per cent. It appears that the bank here in question has outstanding to the same borrower an unsecured loan amounting to 20 per cent of its capital and surplus and also a loan secured by bonds of the United States equivalent to approximately 22 per cent of its capital and surplus.

"Section 11(m) of the Federal Reserve Act, as you know, limits the maximum amount which a member bank may loan on stock or bond collateral to 10 per cent of the bank's capital and surplus, but with a proviso to the effect that, in the case of loans on obligations of the United States, this limitation shall not apply and State member banks shall be subject to 'the same conditions and limitations' as are applicable in the case of national banks under Paragraph (8) of section 5200 of the Revised Statutes. That Paragraph provides that loans by national banks secured by Government obligations shall be subject to a limitation of 15 per cent of capital and surplus in addition to the basic 10 per cent limitation prescribed by section 5200. Accordingly, under this Paragraph a national bank may make a loan to one person on Government obligations up to a maximum of 25 per cent of its capital and surplus, if no unsecured loans are outstanding to the same borrower.

"The proviso in question was added by the Banking Act of 1935 for the purpose of placing State member banks and national banks on a parity in so far as loans on Government obligations are concerned. All of the Committee Reports on the Banking Act of 1935 specifically state that it was the purpose of the proviso to enlarge the basic 10 per cent limitation of section 11(m) to 25 per cent in the case of loans by State member banks on obligations of the United States. Accordingly, it is believed that in no case may the maximum amount loaned by a State member bank on United States obligations exceed 25 per cent of its capital and surplus, since otherwise State member banks would be given an advantage over national banks in this respect.

"However, it does not appear that it was the purpose of section 11(m) to affect basic limitations of State law as to the amount which may be loaned to one borrower on an unsecured basis, except to the extent necessary to place State member banks on an equality with national banks with respect to loans on United States obligations. If a national bank has made an unsecured loan, it may not make

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"an additional loan to the same borrower on obligations of the United States amounting to 25 per cent of its capital and surplus. In such a case, the aggregate amount which may be loaned both on an unsecured basis and on United States obligations may not exceed the sum of 15 per cent of the bank's capital and surplus and the maximum per cent which may lawfully be loaned on an unsecured basis, that is, in the case of a national bank, a total of 25 per cent.

"Applying the same limitation to State member banks, it is the Board's opinion that under section 11(m) of the Federal Reserve Act such a bank may not make loans to the same borrower both on an unsecured basis and on the security of obligations of the United States where the aggregate of such loans exceeds the sum of 15 per cent of the bank's capital and surplus and the maximum per cent which may be loaned on an unsecured basis under State law, that is, in the case of State member banks in Louisiana, a total of 35 per cent; provided that, as previously stated, the loan secured by United States obligations may not exceed 25 per cent."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Chairman.

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