R-28

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 1, 1937.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

Dear Sir:

Reference is made to the report of the Presidents' Conference Committee on Free Services with respect to "Shipping Expense and Movement of Currency and Coin" which report it is understood was submitted to and approved by the Presidents at their conference held in Washington on June 7, 1937.

The report of the Committee on the services rendered by Federal reserve banks in furnishing currency and coin to member banks and on the expense of such services is comprehensive, and the data contained therein should prove helpful in the efforts of the banks to reduce the expense of the currency and coin function to the minimum consistent with the efficient operation of such function and the rendering of reasonable services to member banks. The Board has read this report with much interest, and has requested me to advise you that it concurs in the recommendations contained on page 32 of the report.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-29

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1937.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of June, 1937.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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R-29-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
June 1 to 28, 1937.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	110,000	-	110,000	$10,285.00
New York	480,000	100,000	580,000	54,230.00
Cleveland	-	29,000	29,000	2,711.50
Richmond	-	20,000	20,000	1,870.00
Chicago	200,000	-	200,000	18,700.00
	790,000	149,000	939,000	$87,796.50

939,000 sheets, @ $93.50 per M,......... $87,796.50

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Federal Reserve Bank of St. Louis

R-30

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1937.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZEWE" - Treasury Bills to be dated July 14, 1937, and to mature December 16, 1937.

"NOZEYL" - Treasury Bills to be dated July 14, 1937, and to mature April 13, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZERP" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-31

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1937.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of June, 1937.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

Josephine E. Lally

Josephine E. Lally,
Deputy Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 1937.

Federal Reserve Bank	Number of words sent	Words sent by N. Y. chargeable to other F. R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Boston	40,639	2,536	43,175	$ 319.31	$ —	$ 319.31	$ 675.86	$ 319.31	$ 356.55
New York	157,034	—	157,034	1,133.65	—	1,133.65	2,458.20	1,133.65	1,324.55
Philadelphia	40,404	2,352	42,756	236.39	—	236.39	669.31	236.39	432.92
Cleveland	58,094	2,388	60,482	243.73	—	243.73	946.78	243.73	703.05
Richmond	64,276	2,332	66,608	240.12	—	240.12	1,042.68	240.12	802.56
Atlanta	70,635	2,303	72,938	275.73	—	275.73	1,141.77	275.73	866.04
Chicago	90,131	2,849	92,980	1,132.38	—	1,132.38	1,455.50	1,132.38	323.12
St. Louis	85,148	2,290	87,438	187.99	—	187.99	1,368.75	187.99	1,180.76
Minneapolis	29,342	2,281	31,623	166.71	—	166.71	495.02	166.71	328.31
Kansas City	67,118	2,476	69,594	259.03	—	259.03	1,089.42	259.03	830.39
Dallas	60,431	2,297	62,728	267.55	—	267.55	981.94	267.55	714.39
San Francisco	94,718	2,410	97,128	390.54	—	390.54	1,520.44	390.54	1,129.90
Board of Governors	492,729	—	492,729	2,261.59	14,444.11	16,705.70	7,713.16	16,705.70	—
Total	1,350,699	26,514	1,377,213	$7,114.72	$14,444.11	$21,558.83	$21,558.83	$21,558.83	$8,992.54

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.015653955) for business handled during the month.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1937.

SUBJECT: Holidays during August, 1937.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by offices of Federal reserve banks during the month of August:

Monday,	August 2	Denver Branch	In observance of Colorado Day, which falls on Sunday.
Thursday,	August 12	Havana Agency	Anniversary of Fall of Machado Government
Monday,	August 30	New Orleans Branch	Birthday of Huey Long

On August 2 and 30 the offices affected will not participate in the transit clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the office mentioned on each of these holidays with your credits for the following business day.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-33

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 17, 1937.

SUBJECT: Monthly Report of Bank and
Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal reserve banks for the month of June in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL F. R. BANKS

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Federal Reserve Bank of St. Louis

R-33-a

July 14, 1937.

TO The Board

FROM Mr. Hammond, Division of Bank Operations

SUBJECT: Summary of Bank Relations Reports

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of June and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The attitude toward the Federal Reserve System

In addition to the familiar reasons for remaining outside the Federal Reserve System which have been noted in previous summaries, recent reports indicate that many bankers are now influenced by anticipation that radical changes in the structure of banking and of bank supervision are imminent. This anticipation appears to be based in part upon measures such as the Patman and McAdoo bills. It will be recalled that other objections to membership have related principally to exchange charges, capital requirements, multiplicity of reports, charge-offs, and surrender of branch offices.

Banking conditions

The present reports mention little if anything that is new with respect to banking conditions. There are frequent complaints, from small banks, of the increased reserve requirements. There are also complaints that it is difficult to find profitable employment for funds. There is some tendency for interest rates to decline, especially in the East.

General economic conditions

Remarkable improvement in farming conditions is reported by Minneapolis, Kansas City, and Dallas. In those portions of the West which in recent years have been afflicted with drouth, grasshoppers, and other misfortunes, there have now been normal rains, and favorable growing conditions prevail. There is in consequence a spirit of the utmost optimism. Atlanta reports promising agricultural conditions also, but the present year in the South does not differ so much from previous years as it does in the West. In contrast to the remarkably encouraging prospects in farm regions, banks in industrial regions report sluggishness in real estate and uncertainty as to labor.

Excerpts from the reports follow: (The reports themselves are attached to the original hereof.)

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Boston

Thirty-one member banks were visited during the latter part of June, (23 in western Vermont, 7 in the vicinity of Boston and 1 in New Hampshire.)

On the whole, there is a far better feeling among bankers visited than was found to be the case a year ago. Business conditions in the several communities were reported to be good and the indications are that summer trade, to which these sections cater, promises to be even better than last year. With one or two exceptions, the earning position of the banks shows improvement, and there is a noticeable increase in the demand for commercial loans, this increase ranging from 10 to 20 percent above that of a year ago, according to most of the bankers interviewed.

In Vermont, throughout the State generally, banks have lowered their lending rates since January 1st, this action having been taken in face of agitation in the State Legislature to reduce the legal rate from 6 per cent to 5 percent. Well secured collateral loans and most mortgage loans are now being made at 5 percent, though most non-member banks are advertising mortgage money at 4½ percent. The rates on loans to the small municipalities range from 3½ percent to 4½ percent, and bankers report that outside city banks are not competing with them for this class of business as was the case a year ago, competition at the present time coming from private individuals.

Brokers are offering the Vermont banks particularly, FHA (Title II) loans on Long Island and New Jersey properties at a yield of about 4½ percent. Some of the banks are buying these mortgages, though for the most part the bankers interviewed expressed themselves as not caring to go so far afield. Those of the banks which have bought in substantial amounts have done so after sending committees of officers and directors to inspect the mortgaged properties.

On the part of some of the smaller banks, particularly those located in agricultural communities where the principal loan demand comes in the spring of the year, there is a feeling that the recent increase in the reserve requirement worked a decided hardship on this type of bank, and inquiries were made by several bankers as to what has been accomplished by increasing the reserve, and what is the likelihood of the reserve requirement being reduced before next spring. Several of these banks were obliged to borrow to meet their spring demand, some from the Federal Reserve Bank and others from their correspondents. In this connection New York and Boston banks are quoting their correspondent banks rates from 1½ to 1 3/4 percent. In one instance a member banker stated that he had switched his loan from the Federal Reserve Bank to his Boston correspondent at the lower rate.

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New York

"Southern Tier" Counties

Many bankers indicate that they are still favorably inclined toward government bonds and have increased their holdings of these securities $1,825,000 since the first of the year whereas the total of other bonds has declined about a million dollars.

Loans and discounts of the commercial banks in this area aggregate $28,072,000, representing an increase of $173,000 since December 31, 1936, due largely to loans on real estate. Most of the Federal Housing mortgage loans granted in this section have been made by six commercial banks located in the cities of Binghamton, Johnson City and Endicott, which have loaned in all approximately $1,500,000 on new homes in these cities. The president of the savings bank in one of these cities states that because of the difficulty in obtaining good local mortgages, they recently purchased $130,000 Title II mortgage loans in the New York market, all on homes located on Long Island. Only one bank has made plans to continue making modernization loans now that the Federal Housing Insurance is no longer available. Some of the bankers indicate that they have made quite a number of small loans to farmers this year, ranging from $20 to $300, for the purchase of seed and lime to enable these farmers to participate in the Agricultural Conservation Program for 1937. Several bankers mention that they have sent some of their farm borrowers to the Production Credit Association at Ithaca as they did not want to make loans to them because of the risk. Only two banks in this territory have made any effort to develop personal loan departments, the former having loaned $480,000 and the latter $79,000 on this type of paper.

Columbia and Ulster Counties, New York

Demand for accommodation in general is said to be fair to good, and loan and discount lists for the most part show a tendency to increase slightly or, at least, to remain at levels which are normal for recent years. Many bank officers, however, are inclined to be somewhat discouraged because current loan lists do not compare favorably in size with those of the years 1928 and 1929. The loaning rate is usually 6 per cent although some banks reduce this to 5 per cent, or lower, in the case of amortized mortgages or loans secured by exceptionally good collateral. A lower rate is generally granted on loans made to municipalities and school districts, but two banks made no exceptions whatever. One bank has established 5 per cent as its customary rate with 4½ per cent applying to loans secured by prime collateral.

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Erie and Niagara Counties, New York

The demand for loans, both for commercial and agricultural purposes, is reported to be light except for a few isolated cases in the agricultural districts. In an effort to stimulate loan accounts, some of the banks in the larger communities have established personal loan departments, although they express themselves as being somewhat disappointed with the results obtained.

Rochester, New York

While Rochester has six commercial banks, two of these do only a small commercial business. Twenty-one branches are operated by three banks, of which fifteen are within the corporate limits of the city and six outside. Branches have been established in various communities in this district where formerly independent banks were located. Interest rates in Rochester vary, some banks paying 2 per cent on deposits up to $7,500, with lower rates on amounts in excess of this; other banks pay the 2 per cent rate on balances as high as $15,000, and others place no limit but will take large deposits at 2 per cent as long as they feel they can employ the funds profitably. Loan rates range between 3 and 6 per cent.

Saratoga, Warren, and Washington Counties, New York

Deposits generally are steady or slightly higher than a year ago, only two banks reporting material decreases. Time deposits throughout this area average approximately 66 per cent of total deposits. A number of bank officers express the opinion that they owe it to their depositors to pay 2 per cent as long as it can possibly be justified by earnings, since many of them have been accustomed for years past to rely upon this as an important, and in some cases their chief, source of income.

Philadelphia

Luzerne County, Pennsylvania

The prevailing rates of interest are 2 per cent on deposits and 6 per cent on loans. One banker has suggested to his local clearing house that a deposit rate of 1½ per cent be adopted and that the loaning rate be reduced to 5 per cent. Although the clearing house was friendly to this proposal, no action has as yet been taken.

Some of the bankers are complaining of the competition being offered by a large insurance company, which is placing mortgages in this county at a 4½ per cent rate. Apparently the banks concerned have not

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Philadelphia continued

made much effort to meet this competition by departing from the prevailing 6 per cent rate.

Six Counties in Northeastern Pennsylvania

Conditions in the area covered by this report show an improvement over those of a year ago in all but a few communities. However, the unsettled labor conditions either present or prospective are a matter of concern to officers of the banks visited. Many of them believe that it will be necessary for the National administration to take a definite stand in this matter in the near future and that nothing short of that will have a stabilizing influence.

The general attitude of the officers of non-member banks interviewed during the month was favorable toward the System and no specific comments were received as to why these institutions had not applied for admission. It is believed, however, that at least ten of the institutions visited might have some difficulty in being accepted due to the condition of assets. The officers of four other institutions stated frankly that they were not interested in joining the System. Two of these were officers of banks which had withdrawn from membership since the bank holiday. The officer of another institution stated that his bank was really a "back-door" member, inasmuch as it was able to dispose of its rather large supplies of excess currency by shipping it at the expense of the reserve bank in payment for cash letters, thus obtaining what he considers to be the chief savings to be gotten through membership. One institution hopes to convert to a National bank sometime in the future and two others are ineligible for membership due to insufficient capital.

Largely as a result of improved industrial conditions, the public relief problem has been less acute this year than last. Total expenditures for direct relief in Columbia, Luzerne, Mountour and Monroe Counties in the week ended June 19 were about 25 per cent smaller than a year ago, while in Northumberland and Pike Counties the amount increased. The amount of public money spent in connection with work relief also has been reduced in the past few weeks, although it continues to be an important factor in all counties under consideration.

Larger incomes from such sources as wages, salaries and dividends, as well as from continued public expenditures have had a stimulating effect on trade in general. For example, retail trade sales in the first five months of this year in these counties exceeded those for the same period last year by nearly 7 per cent. Sales since May appear to have been well maintained, although seasonal recessions are in evidence.

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Philadelphia continued

Sales of new passenger automobiles this year have shown substantial increases over the previous years. The number of cars sold in the six counties during the first five months of this year was 20 per cent larger than in the same period last year and 96 per cent larger than in 1933. Compared with a record volume in 1929, however, sales still were about 10 per cent smaller.

Cleveland

(The Cleveland report contains only statistical information as to visits to banks, meetings attended, and addresses made. The schedule of regular visits will probably be resumed in September.)

Richmond

At conventions, group meetings and individual visits, our representatives report a very decided trend in favor of continuing to operate local unit banks as opposed to further supervision of banking from Washington or by outside capital.

The officer of one nonmember State bank, which is also a non-par institution, told our representative that its revenue from exchange charges will average from $9,000 to $10,000 per annum and that without this revenue his bank could not make the grade. This officer feels that there are too many duplicating agencies and supervising authorities, and frankly said he would not consider membership in the System until "pushed in" by statutory requirements. This particular community is prospering at this time, taking advantage of a growing tourist trade.

The active officer of another nonmember bank told our representative that while he has a high regard for the Federal Reserve System, he will undertake no move toward membership at this time as he believes important changes in the entire banking structure are imminent.

Still another officer of a nonmember bank informed our representative that in his opinion membership in the System would be associated locally with the National banking system, and in view of the suspension of a National bank in the same town sometime ago, he held that State bank membership would be of doubtful value. This same officer expressed to our representative the thought that some consideration is being given by his bank to withdrawal from the F.D.I.C. He contends that the insurance is not considered of sufficient importance locally to justify the cost.

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Richmond continued

Our representatives report that in sections visited by them in June, the impression was gained that business was moving at a slower rate than in the preceding months. However, they also report that the agricultural outlook appears improved and that there is considerable expansion throughout the district in construction work, especially residential construction in and near larger communities. Our representatives report that weather conditions during June were favorable for crops, which improved materially in all sections visited by them in this district.

Atlanta

Seven banks in the City of Savannah were visited on June 16th. The bankers, without exception, stated that earnings for the current period are in excess of those shown for the year 1936 and all appeared to be optimistic regarding the earning record for the current year. They reported an increase in the loan portfolios and a substantial revival of business conditions in general. The record shows that receipts of naval stores are about the same as of the same period last year, but that the stocks on hand are smaller. Prices of rosin are higher than last year, but quotations on turpentine are slightly less.

Two member and six nonmember banks located within a radius of 75 miles from Atlanta, in the northwest portion of the state, were also visited. The bankers advised that crop conditions have been unusually favorable and that present prospects indicate a production much in excess of that for 1936. The main money crop in the section visited is cotton and farmers have increased their acreage from ten to fifteen per cent over last year. As a rule, the farmers used fertilizer in generous proportions, purchasing the same with cash obtained from their local banks, which resulted in good business for local merchants and a saving to the farmers on interest.

All of the banks reported an excellent demand for loans, and the member banks stated that in all probability they would avail themselves of the rediscount privilege for short periods.

On June 24 and 25 fourteen banks and one branch in the territory located in the northern part of middle Tennessee were visited. In this section the main money crops are dark fired tobacco, wheat, and corn. Revenue is also derived from forage crops, cattle, lambs, and wool. Farming conditions were found to be excellent, as the weather has been favorable since early spring. Tobacco acreage will equal or exceed that of last year and unless damaged by insects it is reasonable to expect a greater production than that of last year. Bankers of this section

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Atlanta continued

advise that good prices are being received from live stock and that the market is very active.

The activity of Governmental loan agencies as a general rule appeared to have offered no competition to the bankers in this section.

Chicago

(The Chicago report contains only statistical information as to visits to banks, meetings attended, etc.)

St. Louis

A State bank in Missouri wishes to join the System because it is having some difficulty with the F.D.I.C. and believes that joining the Federal Reserve System would overcome the Corporation's objections.

Another nonmember has given no further consideration to membership since the outcome of its initial application, and states that it has no intention whatever of taking the matter up again, although its attitude toward the System is friendly.

Time appears to have softened the attitude of one Illinois banker toward the increase in reserve requirements, which thus far has caused his bank no inconvenience whatever. However, he hopes a reduction will be made should a bona fide local demand for accommodations materialize.

In connection with the recent closing of a nonmember bank, the opinion was expressed that it might be the policy of the F.D.I.C. to center all banking facilities in county seat towns.

A national bank in Missouri referred to the suggestion of the F.D.I.C. in connection with the ratio of 1 to 10 between capital and deposits, and stated that if this requirement is put into effect, it will reduce its deposits rather than increase its capital.

The president of an Illinois bank commented on the relatively low earnings of the bank, and stated that the problem was becoming more acute each year. He says he sometimes wonders what the future has in store for country banks.

Minneapolis

Southeastern South Dakota is in the best condition it has been for years. Widely extended rains have greatly improved the pastures and live

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Federal Reserve Bank of St. Louis

Minneapolis continued

stock feed outlook; and as a direct result, this year promises increased business activity. Rye, barley, and oats are well advanced and show a normal development and growth. Although the cool wet weather may have retarded the growth of the corn to some extent, nevertheless with favorable warm weather soon and a reasonable amount of moisture, there is every chance of a record crop. Some hatching of grasshoppers has been reported in South Dakota, but the present cool weather has been the best deterrent to their growth. Water levels, lakes, wells, and rivers are high.

At every bank visited there was a definite feeling of optimism. Farmers generally are in much better spirits because of the bright crop prospects. Conditions have never looked more promising than at present. But if the rains continue to too great an extent, the former dust bowls of South Dakota may become mud bowls. However, even if the record crop that is anticipated is not produced, it will look good against the drouth years of 1934-1936.

Virtually all the bankers had just received a copy of the Patman Bill sent to them by the Independent Bankers' Association of Minnesota for their perusal and comments. The only unfavorable comment heard concerning this bill was the opinion expressed that politics would eventually creep into the System, and that if this occurred it would result in an unhealthy banking situation.

Business in general is on the upgrade; there is a prevailing optimism; the banks visited have sufficient funds available to take care of all legitimate demands for loans; it is difficult to get the proper kinds of loans; many banks do not anticipate very much of a demand now until harvest time; there is a marked trend on the part of some of the banks to seek an outlet for their available funds in installment paper; and there is a general tendency for lower rates on loans brought on by competition with government agencies. Automobile sales have increased; and some of the dealers' orders for automobiles were held up through the strike situation. There is an increase in the sale of tractors and farm machinery; and some wholesalers have bought heavily this winter to protect their dealers from increased prices.

Western Central Wisconsin

Bank deposits have held up very well considering the amount of money spent for feed. A number of bankers could not account for an increase in their deposits over last fall. Farmers are very hopeful and are now willing to make expenditures for paint and repairs, and other improvements around their farms which have been neglected during the past few years.

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Minneapolis continued

Mercantile stores have reported an increase in sales. If the crop comes through as anticipated, conditions will be far better than normal.

It was reported that offices established by the banks in this territory are all on a paying basis, and that the State Banking Department, in conjunction with the Federal Deposit Insurance Corporation, is about ready to force consolidations in communities where a bank cannot operate profitably. They will, it was said, suggest the establishment of offices at some points so as to continue banking facilities.

The executive officers of one nonmember believe the examiners for the F.D.I.C. are exceedingly severe, and in the course of our conversation asked what steps could be taken to become a member, thereby eliminating examinations by that corporation. They did not, however, care to give up their office now being operated in a nearby town to become a member of the System, so no application will be filed at this time.

A number of the bankers mentioned the Patman Bill. All of them were opposed to government ownership of the Federal Reserve Banks.

Kansas City

Contacts with banks during the month serve to emphasize the fact that the breaking of the drouth in the Tenth District is the outstanding recent banking development. The growing season is still young and many things may happen before Fall, but the month of June witnessed distinct improvement. Rains were general throughout the District and while they were too late to save the wheat crop in regions adjacent to the "Dust Bowl", the feed situation in those sections is greatly improved. Indications are that a considerably better than normal wheat crop will be harvested and the prospects for corn are promising. Reserve stocks are so short because of protracted crop failures that bumper crops may easily be sold at prices much above the average. It is difficult to overestimate the bearing of such a favorable development on the banking situation.

In drouth sections large numbers of people have been on relief and many bank loans have been frozen for years. Good crops and good prices may be the means of a clean-up of bank loans such as has not been seen for years. Even the better situated farmers have been compelled to buy feed at very high prices to keep intact their herds and to produce dairy and poultry products. As a rule the prices farmers have received for these products have not justified the purchase of the necessary feed. But if rains continue another six weeks farmers will again be raising their own feed and it is almost impossible to overestimate the importance of this fact alone on farm morale.

Wyoming

A serious problem confronting banks in Wyoming at the present time is that of financing the restocking of the ranges. Moisture conditions in Wyoming this year have been good and bankers report that ranges in many

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Kansas City Continued

sections are in the best condition in ten years. The problem now is the shortage of cattle.

In making loans to restock ranges, banks are disturbed about two other things. One of these is the relatively high price of cattle. Furthermore, while the ranges at present are in good shape, no one can be certain this has any degree of permanence. The drouth of recent years in west central states was so sensational and protracted that it will take some years of better moisture conditions to give assurance that the dry cycle is actually at an end.

During the past month representatives of the Omaha Branch of this bank called on all of the State banks in Wyoming that are eligible for membership. It cannot be said that the prospects for new membership from that State are especially promising under the conditions that now exist.

The problem of par collection in Wyoming is not an important one and other considerations than the desire to make exchange charges are the dominating ones. Probably the most important factor bearing on the membership question is that of indifference. Most eligible State banks are in an easy cash position and they do not expect to borrow money. However, at the present time quite a number of eligible State banks appear not to be in condition for membership. Some of them are having considerable trouble with the F.D.I.C. examiners, and many are so heavily stocked with real estate loans that they fear their condition will be criticized by the examiners of this bank.

In a good many cases, banks will not be interested in membership until a number of uncertain conditions are more clear. Some are not making money and they prefer to wait until conditions are more settled and they can make money or liquidate their institution. Judging by present conditions, certain communities seem over-banked and there is reported to be considerable pressure from the F.D.I.C. in the direction of consolidation. Naturally banks will not consider membership until it is determined which ones will survive. Another matter working against membership is the increased reserve requirements. Some bankers expressed the opinion that the uncertainty attending a policy of fluctuating reserve requirements will be intolerable. Many of them do not understand that changing reserve requirements is an instrument of credit control that can be used only at infrequent intervals; that the maximum reserve requirements have already gone into effect and that probably this matter has now been stabilized for some time. However, this uncertainty regarding legal reserves is an important factor causing banks to hesitate about membership. In a number of cases banks expressed the opinion that should they decide to become members they would prefer to take out national charters.

Dallas

West Texas

Abundant rainfall and high prices of cattle, sheep, wool and mohair have this year transformed the plains and plateaus of West Texas from a distressed drought-stricken region into a land overflowing with prosperity, according to the reports of our representatives. The bankers interviewed were more optimistic than they have been in many years over the

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Dallas continued

improved state of the agricultural and livestock industries and the resultant bright outlook that faces their communities. The interviewed bankers said that the feeling of discouragement and gloom that has been almost universal among their clients for the past several years is gone.

Banks report a steady growth of deposits, and a continued accumulation of idle funds whose employment presents a problem of steadily increasing complexity. Except in the larger centers the banks have not heretofore invested to any substantial extent in Government bonds or other securities. This is due chiefly to the fact that in normal years the demand for loans from stockmen and farmers is sufficient to keep their funds well employed at profitable interest rates. There is evidence, however, that the banks this year are turning to the government bond market in increasing numbers. One interviewed member banker complained rather sharply that country banks with funds to invest do not always have a fair chance to submit their subscriptions for the new government issues offered by the Treasury Department from time to time. As an example, he cited the Treasury note offering of June 15, saying that he received a notice of the offering and in the same mail received a bulletin announcing that the Treasury Department's subscription books for the offering had been closed.

A surprising number of bankers praised recent banking legislation in the highest terms and expressed gratitude for the great benefits it had contributed to the banks as well as to the public. Such generous and benevolent expressions by bankers in regard to the various restrictive and reformative laws with which the government has in recent years encompassed their operations are so unusual that they perhaps call for some explanation. The answer may probably be found in the happy and jovial mood which prosperous times, like the present, bring to people in all walks of life, including even such confirmed pessimists as bankers are known to be as a class. In any event, this seems to be true of the bankers of West Texas.

The officers of a National bank in Texas took occasion to commend the industrial loan facilities created by Section 13b. They were particularly gratified over the constructive results of a large industrial loan which we made in conjunction with their bank to a local wholesale hardware firm which at the time was threatened with bankruptcy due to the "squeezing" tactics of some of the firm's impatient creditors. The loan not only relieved the situation but enabled the firm to take advantage of a strong upswing in general business conditions in that section of the State, and the company is now not only back on its feet, but its business has increased so rapidly that it has been able to prepay more than twenty monthly installments of its obligation to our bank.

San Francisco

Southern and Western Idaho and Northern Utah

Although the growing season in the area visited during the month was somewhat retarded, approximately two weeks late, all crops generally were reported to be in good condition. Moisture conditions are excellent at

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San Francisco continued

irrigation water in the principal reservoirs is above normal and greater than at any similar time in the past five years. The larger farming sections in Southern Idaho reported a wider diversification of crops being planted, with a heavy planting of beans, potatoes and sugar beets. There has been some damage by pests to the sugar beets in isolated sections, which at present is not considered serious.

Conditions on the lower livestock ranges during the late spring months were excellent. However, forage on the higher ranges did not mature normally, due to a backward spring season. Livestock were held on the lower ranges two or three weeks later than usual before entering the higher ranges. It is reported that winter moisture conditions with late spring rains on the higher ranges gives assurance of ample forage conditions prevailing all through the late summer.

Early lambs in Southern Idaho were marketed this month at weights averaging between 80 and 90 pounds. The price received for the earlier shipments was 12¢ per pound. The wool clip in Southern and Western Idaho was normal, most growers contracting last fall at prices between 34 and 37¢. There is a small percentage of all wools still unsold, and of that practically all now has been consigned.

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PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

JUNE, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	31	None	31	5	#	None	--
New York	132	55	187	8	2,920	4	355
Philadelphia	68	17	85	2	330	1	250
Cleveland	15	16	31	6*	960	3	170
Richmond	36	52	88	5	2,075	None	--
Atlanta	9	23	32	2	700	None	--
Chicago	10	30	40	2	850	None	--
St. Louis	48	20	68	5	2,100	None	--
Minneapolis	157	139	296	15	8,581	3	525
Kansas City	67	29	96	3	541	3	251
Dallas	59	9	68	3	1,550	None	--
San Francisco	61	10	71	16	1,356	3	386

Attendance not reported
* Attendance at 1 not reported

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R-34

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1937.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZFAG" - Treasury Bills to be dated
July 21, 1937, and to mature
December 16, 1937.

"NOZFED" - Treasury Bills to be dated
July 21, 1937, and to mature
April 20, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZEYL" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-35

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release July 23, 1937

The Board of Governors of the Federal Reserve System today announced the following appointment:

FEDERAL RESERVE BANK OF CHICAGO

Detroit Branch of the Federal Reserve Bank of Chicago

BRANCH DIRECTOR:
For unexpired portion of term ending December 31, 1939:
Mr. H. Lynn Pierson of Detroit, Michigan.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-36

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1937.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZFIX" - Treasury Bills to be dated July 28, 1937, and to mature December 17, 1937.

"NOZFOE" - Treasury Bills to be dated July 28, 1937, and to mature April 27, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZFED" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-37

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers, Wednesday, July 28, 1937.

The following summary of general business and financial conditions in the United States, based upon statistics for June and the first three weeks of July, will appear in the August issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Activity in most manufacturing industries and at mines continued in June at the May level, with allowance for seasonal influences, but the total output was decreased by labor difficulties in steel mills. In July, production at these mills increased.

Production and employment

Volume of industrial output, as measured by the Board's seasonally adjusted index, was 115 percent of the 1923-1925 average in June as compared with 118 percent maintained in the preceding three months. The decrease was largely accounted for by the decline in steel production. Automobile production declined seasonally and lumber output showed little change. There was considerable reduction in activity at shoe factories and at sugar refineries, while textile production was close to the level of other recent months. At mines output continued in about the same volume as in May.

Value of construction contracts awarded, which had declined in May, increased considerably in June, according to figures of the F. W. Dodge Corporation. There was a marked rise in contracts for public projects,

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and awards for private building increased somewhat, reflecting chiefly a larger volume of contracts for factories and for apartments.

Factory employment and payrolls declined more than seasonally from the middle of May to the middle of June, largely as a result of strikes in the iron and steel industry. In most other manufacturing industries and also in non-manufacturing lines changes in employment were chiefly of a seasonal nature.

Agriculture

The July 1 cotton report of the Department of Agriculture showed an acreage of 34,192,000, which is larger than in any year since 1933, but considerably smaller than the average of 41,424,000 acres for the five years 1928-1932. Reports on other major crops indicate larger production than last season and about equal to the average for 1928-1932.

Distribution

Distribution of commodities to consumers was maintained in June at the level of other recent months, with allowance for seasonal influences. Department store sales showed a seasonal decline and there was little change in mail-order business. Sales at variety stores increased somewhat. Department store trade in the mid-western industrial area in June and in the first half of the year showed larger increases over a year ago than did sales in other parts of the country.

Freight-car loadings declined somewhat further in June, reflecting largely a decrease in shipments of miscellaneous freight.

Wholesale commodity prices

The general level of wholesale commodity prices, which had declined gradually from the beginning of April to the middle of June, advanced

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somewhat after that time. Prices of hogs and pork rose considerably and grain prices advanced during most of the period. Steel scrap prices increased sharply and prices of tin, zinc, and hides also advanced, while cotton goods and rubber continued downward. In the past week prices for grains declined and cotton prices also moved lower.

Bank credit

In the four-week period ending July 21 the volume of excess reserves of member banks increased from $810,000,000 to $870,000,000, owing principally to a decline in the amount of required reserves resulting from a decrease in deposits at member banks in leading cities.

Commercial loans of reporting member banks continued to increase both in New York City and in other leading cities during the five weeks ending July 21. There was a substantial decline in adjusted demand deposits, mostly at New York City banks. This decline corresponded to decreases in holdings of United States Government obligations, following increases at the time of new Treasury note issues at the middle of June, and in holdings of other securities. Loans to brokers and dealers in securities, which increased in June, declined during the first three weeks of July.

Money rates

Open-market rates on Treasury bills and yields on Treasury notes and bonds declined in July to the lowest levels since March.

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R-38

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release July 28, 1937.

The Board of Governors of the Federal Reserve System today announced the following appointment:

FEDERAL RESERVE BANK OF SAN FRANCISCO

Los Angeles branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:
For unexpired portion of term ending December 31, 1937:
Mr. Carl V. Newman of Santa Ana, California.

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R-39

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1937.

CONFIDENTIAL

Dear Sir:

Inclosed are six copies of a tentative draft of a proposed general revision of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which has been prepared at the direction of the Board but which has not yet been acted upon by the Board. Additional copies are being sent under separate cover.

You will note that this is a preliminary draft and that it is not for publication.

Please submit copies to any national securities exchanges located in your district, and request them to consider the draft in confidence, with every precaution against notice by the press, and to submit to you in writing their comments, criticisms and suggestions. Please forward these to the Board as soon as they are received, and furnish to the Board within a reasonable time any comments, criticisms or suggestions of your own.

It is anticipated that some of the exchanges and some of the Federal Reserve banks will submit their comments within two or three weeks, but that others will desire additional time. All comments, however, should reach the Board not later than September 15, 1937.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers
of Saturday, July 31, 1937

July 30, 1937

The Board of Governors of the Federal Reserve System has amended its Regulation U, which relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange, and at the same time has revised the "Foreword" to the regulation to accord with the regulation as revised. The effect of the amendment is to extend the scope of the regulation, which has heretofore applied only to loans made on or after May 1, 1936, so that it will apply also to loans made prior to that date.

The amendment, which becomes effective September 1, 1937, will appear in the forthcoming issue of the Federal Reserve Bulletin and the regulation as revised is being reprinted and will be mailed within a few days to all banks in the United States.

The "Foreword" to the Regulation, of which only the first paragraph has been revised, now reads as follows:

"This regulation is issued pursuant to the provisions of section 7 of the Securities Exchange Act of 1934.
The regulation does not restrict the right of a bank to extend credit, whether on securities or otherwise, for any commercial, agricultural, or industrial purpose, or for any other purpose except the purchasing or carrying of stocks registered on a national securities exchange.
The regulation does not prevent a bank from taking for any loan collateral in addition to that required by the regulation, nor does it require a bank to reduce any loan, to obtain additional collateral for any outstanding loan, or to call any outstanding loan because of insufficient collateral."

The amendment to Regulation U reads as follows:

"Amendment No. 3 of Regulation U - Effective September 1, 1937

Regulation U, as amended, is hereby further amended in the following respects:

1. Section 1 of said regulation is amended by inserting the words 'or at any previous time,' in the second paragraph of said section after the words 'incurred on or after May 1, 1936,'; and by substituting the words

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'While a bank maintains any such loan, whenever made, the' for the words 'After any such loan has been made, a' in the third paragraph of said section; so that said section 1 as thus amended will read as follows:

'SECTION 1. GENERAL RULE

On and after May 1, 1936, no bank shall make any loan secured directly or indirectly by any stock <u>for the purpose of purchasing or carrying any stock registered on a national securities exchange</u> in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in the supplement to this regulation and as determined by the bank in good faith for any collateral other than stocks.

For the purpose of this regulation, the entire indebtedness of any borrower to any bank incurred on or after May 1, 1936, or at any previous time, for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this regulation.

While a bank maintains any such loan, whenever made, the bank shall not at any time permit withdrawals or substitutions of collateral that would cause the maximum loan value of the collateral at such time to be less than the amount of the loan. In case such maximum loan value has become less than the amount of the loan, a bank shall not permit withdrawals or substitutions that would increase the deficiency; but the amount of the loan may be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.'

2. Section 2 of said regulation is amended by substituting the word 'may' for the word 'thereafter' in the unlettered portion of said section so that the unlettered portion of said section as thus amended will read as follows:

'SECTION 2. EXCEPTIONS TO GENERAL RULE

Notwithstanding the foregoing, a bank may make and may maintain any loan for the purpose specified above, without regard to the limitations prescribed above, if the loan comes within any of the following descriptions:'"

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-41

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

July 30, 1937.

CONFIDENTIAL -- NOT FOR PUBLICATION OR DISTRIBUTION

SUBJECT: Revised Draft of Proposed Regulation A

Dear Sir:

In its letter of August 28, 1935 (X-9301), the Board of Governors submitted to the Federal Reserve banks for comments and suggestions a draft of a revision of Regulation A relating to discounts for member banks by Federal Reserve banks, and with its letter of October 21, 1935 (X-9346), inclosed copies of memoranda covering the recommendations made by the Board's staff with respect to the principal suggestions of the Federal Reserve banks in connection with the proposed regulation.

There are inclosed herewith six copies of a revised draft of the proposed Regulation A and of a proposed letter regarding marginal collateral to be transmitted to the Federal Reserve banks in connection with the issuance of Regulation A. The inclosed draft of the regulation contains a number of changes, and your attention is invited particularly to the provisions of subsection (d) of section 1 of the regulation regarding the kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act; to the omission from subsection (a) of section 2 of the provisions under which paper is ineligible for discount if its proceeds are advanced to some other borrower; to the provisions of subsection (e) of section 3 of the regulation regarding the amount of credit extended on the security of obligations of the United States; to the omission of the words "or between foreign countries" in paragraph (1) of subsection (b) of section 6 regarding bankers' acceptances; to the omission in paragraph (3) of said subsection (b) of the words "or issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn"; to the new footnote 9 regarding bankers' acceptances; to the recommendations in the appendix relating to real estate loans; and to the

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recommendations in the appendix relating to loans upon installment paper; as well as to the General Principles included as a preface to the regulation and the proposed letter to the Federal Reserve banks regarding marginal collateral.

Subsection (d) of section 1 of the regulation contains a list of specified classes of collateral security upon which it may be expected that member banks will more readily be able to obtain credit from the Federal Reserve banks under the provisions of section 10(b) of the Federal Reserve Act than upon other classes of security not specifically mentioned. It has been suggested that the inclusion of this list of classes of collateral security and of the recommendations contained in the appendix to the regulation as to the standards which should be observed by member banks in making installment loans and loans upon real estate may serve to foster and encourage sound practices by member banks in making loans and investments.

As you know, with the exception of paper of cooperative marketing associations and of certain factors, paper the proceeds of which are advanced or loaned to some other borrower, such as paper made by finance companies, has heretofore been ineligible for discount at Federal Reserve banks. You will note from subsection (a) of section 2 of the inclosed draft of the regulation that this restriction on paper whose proceeds are loaned to others has been eliminated, so that notes, drafts or bills of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower for a commercial, agricultural or industrial purpose would be eligible for discount. Like any paper offered for discount, however, such a note, draft or bill would have to comply with the other requirements of the regulation as to eligibility for discount, including the maturity limitations of 90 days in the case of commercial paper and nine months in the case of agricultural paper. If paper is ineligible for discount because its maturity is in excess of these limitations, it may nevertheless be accepted by a Federal Reserve bank as security for a member bank's promissory note under the provisions of section 10(b) of the Federal Reserve Act, as provided in subsection (d) of section 1 of the regulation.

It will be observed that under the provisions of paragraph (1) of subsection (b) of section 6 it would no longer be possible to discount bankers' acceptances drawn to finance the shipment of goods between foreign countries. This change is contained in the revised draft of the regulation in view of the disclosures regarding acceptances of this kind in the report of the Federal Reserve Committee on Acceptance Practice. In view of the fact that Regulation B provides that, with certain exceptions, a banker's acceptance must be eligible for discount in order to be eligible for purchase by Federal

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Reserve banks in the open market, this change would also prevent the purchase of bankers' acceptances drawn to finance the shipment of goods between foreign countries. However, the change would not prevent the financing through bankers' acceptances of the sale and distribution into the channels of trade abroad of goods exported from this country, in accordance with the ruling published at page 860 of the Federal Reserve Bulletin for 1927. Footnote 9 is intended to conform substantially to the recommendation contained in the report of the Federal Reserve Committee on Acceptance Practice.

It will be appreciated if you will review the inclosed documents and furnish to the Board your comments and suggestions thereon before September 1, 1937. While the Board will, of course, be glad to have your views on any provision of the regulation to which you wish to call attention, the provisions contained in the draft of the regulation inclosed with the Board's letter of August 28, 1935, have already been the subject of careful consideration by the Federal Reserve banks, and it is hoped that in making suggestions to the Board regarding the revised draft you will give particular attention to the provisions which are mentioned in the second paragraph of this letter.

It is requested that the regulation and the proposed letter be considered by the appropriate officers of your bank, but that they be not submitted to or discussed with anyone outside of the bank. Please have it clearly understood that the regulation and proposed letter are not for publication and that the entire matter is to be dealt with in strict confidence.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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PROPOSED LETTER TO BE SENT TO FEDERAL RESERVE BANKS
AFTER ISSUANCE OF REGULATION A.

SUBJECT: Amount of Marginal Collateral Required in Connection with Advances or Discounts.

Dear Sir:

In connection with the revision of Regulation A which has just been issued, the Board of Governors wishes to invite your attention to the provisions contained in subsection (d) of section 3 relating to marginal collateral required by a Federal Reserve bank from a member bank in connection with a discount or an advance.

In determining the amount of marginal collateral to be required it is expected that a Federal Reserve bank shall give primary consideration to the public welfare and the general effects that its action may have on the position of the member bank, on its depositors, and in the community, and in general a Federal Reserve bank should limit the amount of collateral it requires to the minimum consistent with prudence.

Although the regulation itself contains no specific limitation on the amount of additional or marginal collateral that a Federal Reserve bank may require from a member bank in connection with

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a discount or an advance, it is the view of the Board of Governors that in no case should the amount of all the assets of a member bank, at their market value or their reasonably appraised value, required by a Federal Reserve bank as collateral security in connection with any advance or discount under the provisions of Regulation A exceed _____ per cent of the amount of the advance or _____ per cent of the amount of the paper discounted, as the case may be, unless a prompt and full report of all the circumstances of the case is made by the Federal Reserve bank to the Board of Governors of the Federal Reserve System.

It is requested that you arrange to have all future transactions of the kind described reported to the Board of Governors in accordance with the views expressed above.

Very truly yours,

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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L-499

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Draft of regulation prepared at direction of Board of Governors of the Federal Reserve System but not yet acted upon by the Board of Governors.

BOARD OF GOVERNORS

OF THE FEDERAL RESERVE SYSTEM

ADVANCES TO AND DISCOUNTS FOR MEMBER BANKS BY FEDERAL RESERVE BANKS

REGULATION A

This regulation as printed herewith is in the form as revised effective ______________.

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L-499

(Reverse side of cover page)

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve bank of the district in which the inquiry arises.

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CONTENTS

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C O N T E N T S (Cont'd)

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L-499

GENERAL PRINCIPLES

The guiding principle underlying the extension of credit by Federal Reserve banks is public service. Accordingly, the effect that the granting or withholding of credit accommodation by a Federal Reserve bank may have on a member bank, on its depositors and on the community is of primary importance. The fundamental objective to be sought in the application of the provisions of this regulation is the advancement of the public interest.

In extending accommodation to any member bank, the Federal Reserve banks are required to have due regard to the demands of other member banks, as well as to the maintenance of sound credit conditions and the accommodation of commerce, industry, and agriculture, and to consider not only the nature of the paper offered, but also the general character and amount of the loans and investments of the member bank, and whether the bank has been extending an undue amount of credit for speculative purposes in securities, real estate, or commodities, or in any other way has conducted its operations in a manner inconsistent with the maintenance of sound credit conditions.

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L-499

Draft of regulation prepared at direction of Board of Governors of the Federal Reserve System but not yet acted upon by the Board of Governors.

* * * * * *

REGULATION A
Revised effective ________ 1937
(Superseding Regulation A, Series of 1930)

ADVANCES TO AND DISCOUNTS FOR MEMBER BANKS BY FEDERAL RESERVE BANKS

INTRODUCTION

This regulation is based upon and issued pursuant to various provisions of the Federal Reserve Act, the most important of which, together with related provisions of law, are published in the Appendix hereto. The regulation is applicable to the following forms of borrowing from a Federal Reserve bank: (1) advances to member banks on their own notes secured by paper eligible for discount or purchase by Federal Reserve banks, by obligations of the United States or certain corporations owned by the United States, or by other security which is satisfactory to the Federal Reserve bank; (2) discounts of commercial, agricultural and industrial paper and bankers' acceptances; and (3) discounts for Federal Intermediate Credit banks.

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SECTION 1. ADVANCES TO MEMBER BANKS

(a) Advances on Government obligations. - Any Federal Reserve bank may make advances, under authority of section 13 of the Federal Reserve Act, to any of its member banks for periods not exceeding fifteen days[1] on the promissory note of such member bank secured (1) by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or (2) by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit banks having maturities of not exceeding six months from the date of the advance, or (3) by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act and guaranteed both as to principal and interest by the United States, or (4) by the deposit or pledge of Home Owners' Loan Corporation bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and guaranteed both as to principal and interest by the United States.

(b) Advances on eligible paper. - Any Federal Reserve bank may make advances, under authority of section 13 of the Federal

---

[1]However, under the provisions of the last paragraph of section 13 of the Federal Reserve Act, any Federal Reserve bank may make advances for periods not exceeding ninety days to individuals, partnerships or corporations (including banks) on their promissory notes secured by direct obligations of the United States at rates fixed for the purpose.

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Reserve Act, to any of its member banks for periods not exceeding ninety days on the promissory note of such member bank secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for discount by Federal Reserve banks under the provisions of this regulation or for purchase by such banks under the provisions of Regulation B.

(c) Advances on other security under section 10(b) of the Federal Reserve Act. - Subject to the provisions of subsection (d) of this section, any Federal Reserve bank may make advances, under authority of section 10(b) of the Federal Reserve Act, to any of its member banks upon the latter's promissory note secured to the satisfaction of such Federal Reserve bank. The rate charged on advances made under the provisions of this subsection shall in no event be less than one-half of 1 per cent per annum higher than the highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act in effect at such Federal Reserve bank on the date of the note evidencing such advance. Such an advance must be evidenced by the promissory note of such member bank payable either (1) on a definite date not more than four months after the date of such advance, or (2) at the option of the holder on or before a definite date not more than four months after the date of such advance.

(d) Kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act. - A Federal Reserve bank may accept as security for an advance made under the

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provisions of subsection (c) of this section assets of any of the classes enumerated below which are satisfactory to the Federal Reserve bank, or paper secured by assets of such classes:

(1) Assets which may be used as collateral security for advances under subsection (a) of this section, entitled "Advances on Government Obligations", or subsection (b) of this section, entitled "Advances on Eligible Paper";

(2) Paper which would be eligible for discount or for purchase by Federal Reserve banks except by reason of the fact that the period of its maturity is greater than that permitted for paper eligible for discount or purchase;

(3) Obligations evidencing loans upon the security of stock which are made in conformity with the provisions of Regulation U of the Board of Governors of the Federal Reserve System;

(4) Investment securities as defined by the Comptroller of the Currency pursuant to section 5136 of the Revised Statutes of the United States;

(5) Obligations insured under the provisions of Title I or Title II of the National Housing Act;

(6) Debentures, bonds, or other such obligations issued by Federal Home Loan banks or issued under authority of the Federal Farm Loan Act, without regard to the maturity of any such obligations;

(7) Bills, notes, revenue bonds, and warrants which

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constitute general obligations of any State or of any political subdivision thereof;

(8) Obligations which are issued or drawn for the purpose of financing, refinancing, or carrying real estate and which comply substantially with the standards set forth in the recommendations relating to real estate loans in the appendix to this regulation;

(9) Obligations which are issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis and which comply substantially with the standards set forth in the recommendations relating to loans upon an installment basis in the appendix to this regulation, and obligations of businesses principally engaged in extending credit on such basis and in substantial accordance with such standards.

In addition, when in the judgment of the Federal Reserve bank circumstances make it advisable to do so, the Federal Reserve bank may accept as security for an advance under subsection (c) of this section any assets other than those set forth above which are satisfactory to the Federal Reserve bank.

SECTION 2. DISCOUNT OF NOTES, DRAFTS AND BILLS FOR MEMBER BANKS.[2]

(a) Commercial, agricultural and industrial paper. - Any Federal

[2] Even though paper is not eligible for discount by a Federal Reserve bank for a member bank under the provisions of this regulation, it may be used as security for an advance by a Federal Reserve bank to a member bank under the terms and conditions of subsection (c) and subsection (d) of section 1 of this regulation if it constitutes security satisfactory to the Federal Reserve bank. In addition to the classes of paper mentioned in section 2 of this regulation a Federal Reserve bank may discount bankers' acceptances in accordance with the provisions of section 6 of this regulation.

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Reserve bank may discount for any of its member banks, under authority of sections 13 and 13a of the Federal Reserve Act, any note, draft or bill of exchange which meets the following requirements:

(1) It must be a negotiable note, draft, or bill of exchange, bearing the indorsement of a member bank, which has been issued or drawn, or the proceeds of which have been used or are to be used, in producing, purchasing, carrying or marketing goods[3] in one or more of the steps of the process of production, manufacture, or distribution, or in meeting current operating expenses of a commercial, agricultural or industrial business, or for the purpose of carrying or trading in direct obligations of the United States (i.e. bonds, notes, Treasury bills or certificates of indebtedness of the United States);

(2) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings or machinery, or for any other capital purpose;

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[3]As used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including livestock.

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(3) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for transactions of a purely speculative character or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities except direct obligations of the United States (i.e. bonds, notes, Treasury bills or certificates of indebtedness of the United States);

(4) It must have a definite maturity at the time of discount of not exceeding ninety days, exclusive of days of grace, except that agricultural paper as defined below in this section of this regulation may have a maturity of not exceeding nine months, exclusive of days of grace; but this requirement is not applicable with respect to bills of exchange payable at sight or on demand of the kind described in subsection (b) of this section.

(b) <u>Bills of exchange payable at sight or on demand</u>. - Any Federal Reserve bank may discount for any of its member banks, under authority of section 13 of the Federal Reserve Act, negotiable bills of exchange payable at sight or on demand which (1) bear the indorsement of a member bank, (2) grow out of the domestic shipment or the exportation of nonperishable, readily marketable staples[4]

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[4]A readily marketable staple within the meaning of this regulation means an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

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and (3) are secured by bills of lading or other shipping documents conveying or securing title to such staples. All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer instructs that they be held until arrival of such staples at their destination, in which event they must be presented for payment within a reasonable time after notice of such arrival has been received. In no event shall any such bill be held by or for the account of a Federal Reserve bank for a period in excess of ninety days.

(c) Construction loans. - In addition to paper of the kinds specified above, any Federal Reserve bank may discount for any of its member banks, under authority of section 24 of the Federal Reserve Act, a negotiable note which (1) represents a loan made to finance the construction of a residential or a farm building whether or not secured by lien upon real estate, (2) is indorsed by such member bank, (3) is accompanied by a valid and binding agreement, entered into by a person[5] acceptable to the discounting Federal Reserve bank, requiring such person to advance the full amount of the loan upon the completion of the construction of such residential or farm building, and (4) matures not more than six months

[5]Such person may be the member bank offering the note for discount or any other individual, partnership, association or corporation.

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from the date such loan was made and not more than ninety days from the date of such discount by such Federal Reserve bank, exclusive of days of grace.

(d) Agricultural paper. - Agricultural paper, within the meaning of this regulation, is a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of livestock.

(e) Paper of cooperative marketing associations. - Notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose within the meaning of the foregoing definition of "agricultural paper", if the proceeds thereof have been or are to be used by such association in making advances to any members thereof for an agricultural purpose, in making payments to any members thereof on account of agricultural products delivered by such members to the association, or to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product

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handled by such association for any of its members. In addition, any other paper of such associations which complies with the applicable requirements of this regulation may be discounted. Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, are not eligible for discount, even though such warehouses or other property are to be used exclusively in connection with the ordinary operations of the association.

(f) Collateral securing discounted paper. - A note, draft or bill of exchange discounted by a Federal Reserve bank may be secured by the pledge of goods or collateral of any nature, including paper which is ineligible for discount, provided such note, draft or bill of exchange is otherwise eligible for discount.

(g) Determination of eligibility. - A Federal Reserve bank shall take such steps as may be necessary to satisfy itself as to the eligibility of any paper offered for discount. Compliance of paper with the provisions of paragraph (3) of subsection (a) of this section may be evidenced by a financial statement of the borrower showing a reasonable excess of quick assets over current liabilities, or such compliance may be evidenced in any other manner satisfactory to the Federal Reserve bank.

(h) Limitations. - The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation

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is liable as maker, acceptor, indorser, drawer, or guarantor, discounted for any member bank shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national banking association under the terms of section 5200 of the Revised Statutes of the United States, as amended.[6] A Federal Reserve bank may not discount for any State member bank any note, draft, or bill of exchange of any one borrower whose total liability for borrowed money to such State member bank is greater than could be borrowed lawfully from such State bank were it a national bank.

SECTION 3. GENERAL REQUIREMENTS AS TO ADVANCES AND DISCOUNTS

(a) Applications for advances or discounts. - Every application by a member bank for an advance to such bank or for the discount of paper must contain a certificate of such bank, in form to be prescribed by the Federal Reserve bank, that the security offered for the advance or the paper offered for discount, as the case may be, has not been acquired from a nonmember bank (otherwise than in accordance with section 4 of this regulation) or, if so acquired, that the applying member bank has received permission from the Board of Governors of the Federal Reserve System to obtain advances from the Federal Reserve bank on security acquired from nonmember banks or to discount with the Federal Reserve bank paper so acquired. Every such

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[6] Section 5200 of the Revised Statutes of the United States is printed in the Appendix to this regulation (page 32) together with a tabular analysis of the section prepared in the office of the Comptroller of the Currency (page 36).

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application shall also contain a notation by the member bank as to whether it has on file a current financial statement of a party primarily liable on the paper offered for discount or as security for an advance or of the person from whom the member bank acquired such paper. Every application of a State member bank for the discount of paper must contain a certificate or guaranty to the effect that the borrower is not liable and will not be permitted to become liable to such bank for borrowed money during the time his paper is under discount with the Federal Reserve bank in an amount greater than that which could be borrowed lawfully from such State bank were it a national bank.

(b) Financial statements. - In order to determine whether security offered for an advance or paper offered for discount is eligible and acceptable, any Federal Reserve bank may require that there be filed with it recent financial statements, or certified copies thereof, (1) of one or more parties to any obligation offered as security for an advance or to any note, draft, or bill of exchange offered for discount and (2) of any corporations or firms affiliated with or subsidiary to such party or parties. A Federal Reserve bank may in any case require such other information as it deems necessary.

(c) Speculative use of credit by a member bank. - Each Federal Reserve bank is required by law to keep itself informed at all times of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances or discounts, the Federal Reserve bank is required

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to give consideration to such information. Each Federal Reserve bank may require such information from its member banks as it may deem necessary in order to determine whether such undue use of bank credit is being made.

(d) Additional or marginal security. - In connection with any advance or discount under this regulation, a Federal Reserve bank may require such additional or marginal security as it may deem necessary for its protection over and above security, if any, required in such case by the provisions of this regulation; and the requirements of this regulation with respect to the kinds of security shall not be applicable to such additional or marginal security.

(e) Amount of credit extended on security of obligations of the United States. - In any case in which an advance is made by a Federal Reserve bank in accordance with the provisions of this regulation on a member bank's promissory note which is secured by direct obligations of the United States or obligations which are guaranteed both as to principal and interest by the United States, the member bank may obtain credit in an amount equal to the face amount of such obligations. However, if the member bank has paid for such obligations less than the face amount thereof and the market value of the obligations is less than par, the amount of such credit may not exceed the amount which it has paid for the obligations or the market value, whichever is the higher. The amount of any discount charged by the Federal Reserve bank at the rate established for the purpose may be deducted from the amount of the credit.

SECTION 4. PAPER ACQUIRED FROM NONMEMBER BANKS

(a) Prohibition upon acceptance of nonmember bank paper. - Except with the permission of the Board of Governors of the Federal Reserve

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System, no Federal Reserve bank shall discount or accept as security for an advance any paper or assets acquired by a member bank from, or bearing the signature or indorsement of, a nonmember bank, except assets or paper otherwise eligible which was purchased by the offering bank in good faith on the open-market from some party other than a nonmember bank or which was acquired through a merger or consolidation with, or purchase of a majority of the assets of, a nonmember bank.

(b) Applications for permission. - An application for permission to use as security for advances assets acquired from nonmember banks or to discount paper acquired from nonmember banks shall be made by the member bank which desires to offer such assets as security or such paper for discount and shall state fully the facts which give rise to such application and the reasons why the applying member bank desires such permission. Such application shall be addressed to the Board of Governors of the Federal Reserve System but shall be submitted by the member bank to the Federal Reserve bank of the district, which will forward it promptly to the Board of Governors of the Federal Reserve System with its recommendation.

(c) Paper acquired from Federal Intermediate Credit banks. - The Board of Governors of the Federal Reserve System hereby grants permission to Federal Reserve banks to make advances to member banks upon the security of paper or assets bearing the signature or indorsement of, or acquired from, Federal Intermediate Credit banks, or to discount such paper for member banks, if such paper is otherwise eligible under the law and this regulation.

SECTION 5. DISCOUNTS FOR FEDERAL INTERMEDIATE CREDIT BANKS

(a) Kinds and maturity of paper. - Any Federal Reserve bank,

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under authority of section 13a of the Federal Reserve Act, may discount for any Federal Intermediate Credit bank (1) agricultural paper as defined in section 2 of this regulation, or (2) notes payable to such Federal Intermediate Credit bank covering loans or advances made by it pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, which are secured by notes, drafts or bills of exchange eligible for discount by Federal Reserve banks. Any paper discounted for a Federal Intermediate Credit bank must bear the indorsement of such bank and must have a maturity at the time of discount of not more than nine months exclusive of days of grace.

(b) Limitations. - No Federal Reserve bank shall discount for any Federal Intermediate Credit bank any paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal Reserve System under the terms of section 9 of the Federal Reserve Act. In discounting paper for Federal Intermediate Credit banks, each Federal Reserve bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks. Except with the permission of the Board of Governors of the Federal Reserve System, no Federal Reserve bank shall discount paper for any Federal Intermediate Credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal Reserve notes in actual circulation.

SECTION 6. BANKERS' ACCEPTANCES[7]

(a) Definition. - A banker's acceptance within the meaning of this regulation is a draft or bill of exchange, whether payable in the

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[7]For regulations governing the acceptance by member banks of drafts and bills of exchange drawn on them, see Regulation C.

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United States or abroad and whether payable in dollars or some other money, accepted by a bank or trust company or a firm, person, company or corporation engaged generally in the business of granting bankers' acceptance credits.

(b) Eligibility. - Any Federal Reserve bank may discount for any of its member banks any such bankers' acceptance bearing the indorsement of a member bank and having a maturity at the time of discount not greater than that prescribed by subsection (c) of this section, which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between dependencies or insular possessions and foreign countries;

(2) The shipment of goods within the United States, provided shipping documents conveying security title are attached at the time of acceptance; or

(3) The storage in the United States or in any foreign country of readily marketable staples,[8] provided that the bill is secured at the time of acceptance by a warehouse, terminal,

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[8]A readily marketable staple within the meaning of this regulation means an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

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or other similar receipt, conveying security title to such staples, issued by a party independent of the customer; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (A) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (B) that a new document, similar to the original one, will be resubstituted within a specified time.

Provided, That acceptances for any one customer in excess of 10 per cent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance, and in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being

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considered such actual security if they permit the customer to have access to or control over the goods.

(c) Maturities. - No such acceptance is eligible for discount which has a maturity at the time of discount in excess of ninety days' sight, exclusive of days of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with maturities at the time of discount of not more than six months' sight, exclusive of days of grace. Although a Federal Reserve bank may legally discount an acceptance having a maturity at the time of discount not greater than that prescribed above in this subsection, an acceptance should not have a maturity which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of the period reasonably necessary to finance such transaction. Since the purpose of permitting the acceptance of drafts secured by warehouse receipts or other such documents is to permit the temporary holding of readily marketable staples in storage pending a reasonably prompt sale, shipment, or distribution, no such acceptance should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

(d) Dollar exchange acceptances. - A Federal Reserve bank may also discount any bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in Regulation C, provided that it

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has a maturity at the time of discount of not more than three months, exclusive of days of grace.

(e) Evidence of eligibility. - A Federal Reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve bank.[9]

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[9] In accepting any draft or bill of exchange arising out of a shipment of the kind referred to in clause 1 of subsection (b) of section 6 of this regulation, the accepting bank should obtain at the time of acceptance satisfactory evidence as to the nature of the transaction underlying such draft or bill of exchange.

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APPENDIX

Recommendations of the Board of Governors of the Federal Reserve System as to the Minimum Standards Which Should Be Observed by Member Banks in Making Loans upon Real Estate

While recognizing that requirements of individual banks in making loans for the purpose of financing or carrying real estate will vary according to the circumstances of particular transactions, the Board of Governors of the Federal Reserve System believes that certain standards should be observed. Some of these standards are specifically required by law with respect to loans of national banks. Others are advisable as a matter of sound banking practice. The examiners for the Federal Reserve banks should take such standards into consideration in reviewing loans of State member banks, and Federal Reserve banks in passing upon applications of member banks for credit accomodations supported by real estate loans should give preference to the acceptance as collateral of such loans as meet these standards. With these considerations in mind the Board recommends that member banks in making real estate loans, other than those insured under Title II of the National Housing Act, apply the standards set forth below as minimum requirements:

(1) Obligations issued or drawn for the purpose of financing, refinancing or carrying real estate should be secured by first lien, evidenced by mortgage, trust deed or other such instrument, upon improved real estate, which may consist of improved farm land or improved business or residential properties;

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(2) The amount of the loan or loans evidenced by such obligations should not exceed 50 per cent of the appraised value of the real estate securing such loan or loans and no such loan should be for a longer term than five years, except that any such loan may be in an amount not exceeding 60 per cent of the appraised value of the real estate securing such loan and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust or other such instrument under the terms of which 40 per cent or more of the principal of the loan will be amortized within a period of not more than ten years by means of substantially equal monthly, quarterly, semiannual or annual payments on principal with interest added or on principal and interest combined;

(3) There should be on file with the member bank with respect to such obligations the following documents or properly certified or photostatic copies thereof:

(a) an appraisal of the value of the real estate which has been made within a reasonable time before the obligation was acquired by the member bank (i) by one or more competent and experienced appraisers independent of the member bank and having no interest, direct or indirect, in the real estate, or (ii) if the member bank maintains a separate real estate department, by one or more officers or employees who are regularly assigned to such department and who specialize in real estate appraisals, or (iii) by a committee of not less than two members appointed by the board of directors, and which

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contains, in addition to such other data as may be required by the member bank, statements as to the purpose for which the real estate is used or is proposed to be used and the nature and amount of the income received therefrom;

(b) an adequate description of the real estate, including the improvements;

(c) evidence of the title to the real estate in the form of a certificate of a title company, a title insurance policy, an opinion of a competent attorney or other form satisfactory to the member bank;

(d) satisfactory evidence that no taxes or assessments thereon are delinquent and that adequate insurance is carried; and

(e) such other information and documents as the circumstances of the case may render advisable.

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Recommendations of the Board of Governors of the Federal Reserve System as to the Minimum Standards for Installment Paper Used as Collateral Security for Advances to Member Banks

While recognizing that requirements of individual banks in making loans for the purpose of financing or refinancing the sale of goods upon an installment basis will vary according to the circumstances of particular transactions, the Board of Governors of the Federal Reserve System believes that certain standards should be observed as a matter of sound banking practice. The examiners for the Federal Reserve banks should take such standards into consideration in reviewing loans of State member banks, and Federal Reserve banks in passing upon applications of member banks for credit accommodations supported by obligations issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis should give preference to the acceptance as collateral of such loans as meet these standards. With these considerations in mind, the Board recommends that the standards set forth below be applied by all member banks as minimum requirements in making such loans:

(1) Obligations which are issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis should be secured by first lien upon or retention of title to such goods through a chattel mortgage, conditional sales contract, bailment lease, or other similar instrument, insuring at all times the continuance of an effective and lawful lien or retention of title in favor of the holder of such obligations;

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(2) The goods should be of such nature and the terms of the obligations should be such that in the event of the resale of the goods at any time during the life of the obligations it may reasonably be expected that the sum realized will be substantially greater than that necessary to liquidate the amount of the obligations then unpaid, including interest and all charges.

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STATUTORY PROVISIONS

Section 4 of the Federal Reserve Act reads in part as follows:

" Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Board of Governors of the Federal Reserve System, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Board of Governors of the Federal Reserve System may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Board of Governors of the Federal Reserve System any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Board of Governors of the Federal Reserve System, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time."

Section 9 of the Federal Reserve Act reads in part as follows:

"Provided, however, That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by

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this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank."

Section 10(b) of the Federal Reserve Act reads as follows:

"Sec. 10(b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

Section 13 of the Federal Reserve Act reads in part as follows:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and

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notes of the Government of the United States.* Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than 90 days, exclusive of grace.

* * * * *

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which grow out of the domestic shipment or the exportation of nonperishable, readily marketable agricultural and other staples and are secured by bills of lading or other shipping documents conveying or securing title to such staples: Provided, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: Provided further, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of ninety days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof.

"The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, rediscounted for any member bank, shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national banking association under the terms of section 5200 of the Revised Statutes, as amended: Provided, however, That nothing in this paragraph shall be construed to change the character or class of paper

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*Or Treasury bills or certificates of indebtedness. See act approved June 17, 1929 (46 Stat., 19), amending sec. 5 of Second Liberty Bond Act, approved Sept. 24, 1917 (40 Stat., 290)

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now eligible for rediscount by Federal reserve banks.

"Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than 90 days' sight, exclusive of days of grace, and which are indorsed by at least one member bank: Provided, That such acceptances if drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight exclusive of days of grace.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. * * * * *

"Any Federal Reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13(a) of this Act, or by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act, or by the deposit or pledge of bonds issued under the provisions of subsection (c) of Section 4 of the Home Owners' Loan Act of 1933, as amended; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such

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advances shall be made at rates to be established by such Federal reserve banks, such rates to be subject to the review and determination of the Board of Governors of the Federal Reserve System. If any member bank to which such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Board of Governors of the Federal Reserve System to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Board of Governors of the Federal Reserve System shall determine: Provided, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph.

* * * * *

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System.

* * * * *

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Board of Governors of the Federal Reserve System by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts

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and subject to such regulations, restrictions, and limitations as may be prescribed by the Board of Governors of the Federal Reserve System: * * * *."

Section 13a of the Federal Reserve Act as amended reads in part as follows:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding nine months, * * * *.

"That any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal reserve system, in accordance with section 9 of this Act. Any Federal reserve bank may also, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes payable to and bearing the indorsement of any Federal intermediate credit bank, covering loans or advances made by such bank pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, as amended (U.S.C., Title 12, ch.8, sec.1031), which have maturities at the time of discount of not more than nine months, exclusive of days of grace, and which are secured by notes, drafts, or bills of exchange eligible for rediscount by Federal Reserve banks.

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"Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: Provided, That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

"The Board of Governors of the Federal Reserve System may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank."

Section 19 of the Federal Reserve Act reads in part as follows:

"*****No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Board of Governors of the Federal Reserve System."

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Section 24 of the Federal Reserve Act reads in part as follows:

"Loans made to finance the construction of residential or farm buildings and having maturities of not to exceed six months, whether or not secured by a mortgage or similar lien on the real estate upon which the residential or farm building is being constructed, shall not be considered as loans secured by real estate within the meaning of this section but shall be classed as ordinary commercial loans: Provided, That no national banking association shall invest in, or be liable on, any such loans in an aggregate amount in excess of 50 per centum of its actually paid-in and unimpaired capital. Notes representing such loans shall be eligible for discount as commercial paper within the terms of the second paragraph of section 13 of the Federal Reserve Act, as amended, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by an individual, partnership, association, or corporation acceptable to the discounting bank."

Section 5200 of the Revised Statutes of the United States reads as follows:

"Sec. 5200. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. The term 'obligations' shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest. Such limitation of 10 per centum shall be subject to the following exceptions:

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"(1) Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values shall not be subject under this section to any limitation based upon such capital and surplus.

"(2) Obligations arising out of the discount of commercial or business paper actually owned by the person, copartnership, association, or corporation negotiating the same shall not be subject under this section to any limitation based upon such capital and surplus.

"(3) Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment shall not be subject under this section to any limitation based upon such capital and surplus.

"(4) Obligations as indorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership indorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(5) Obligations in the form of banker's acceptances of other banks of the kind described in section 13 of the Federal Reserve Act shall not be subject under this section to any limitation based upon such capital and surplus.

"(6) Obligations of any person, copartnership, association or corporation, in the form of notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples when such property is fully covered by insurance, if it is customary to insure such staples, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus when the market value of such staples securing such obligations is not at any time less than 115 per centum of the face amount of such obligation, and to an additional increase of limitation of 5 per centum of such

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capital and surplus in addition to such 25 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 120 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 30 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 125 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 35 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 130 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 40 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 135 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 45 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 140 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and/or secured upon the identical staples for more than ten months.

"(7) Obligations of any person, copartnership, association, or corporation in the form of notes or drafts secured by shipping documents or instruments transferring or securing title covering livestock or giving a lien on livestock when the market value of the livestock securing the obligation is not at any time less than 115 per centum of the face amount of the notes covered by such documents shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

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"(8) Obligations of any person, copartnership, association, or corporation in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(9) Obligations representing loans to any national banking association or to any banking institution organized under the laws of any State, or to any receiver, conservator, or superintendent of banks, or to any other agent, in charge of the business and property of any such association or banking institution, when such loans are approved by the Comptroller of the Currency, shall not be subject under this section to any limitation based upon such capital and surplus."

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TABULAR ANALYSIS OF SECTION 5200 OF THE REVISED STATUTES OF THE UNITED STATES PREPARED IN THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

OBLIGATIONS (See definition in section 5200 above)	AMOUNTS LOANABLE
(A) Accommodation or straight loans, whether or not single name, including liability as endorser or guarantor (where endorser or guarantor receives the proceeds from bank) of paper not coming within exceptions 2 and 4. Loans secured by stocks, bonds, and authorized real estate mortgages.	Maximum limit, 10 percent of bank's paid up and unimpaired capital and surplus.
(1) Drafts or "bills of exchange drawn in good faith against actually existing values."	No limit imposed by law.
(2) Commercial or business paper (of other makers) actually owned by the person, copartnership, association, or corporation negotiating the same.	No limit imposed by law.
(3) Obligations secured by goods or commodities in process of shipment.	No limit imposed by law.
(4) Obligations as endorser or guarantor of notes (other than commercial or business paper) maturing within six months, owned by endorser.	15 percent in addition to 10 percent (A).
(5) Bankers' acceptances of the kinds described in section 13 of the Federal Reserve Act.	No limit imposed by law.
(6) Obligations secured by shipping documents, warehouse receipts, or other such documents, transferring or securing title covering readily marketable nonperishable staples-- (a) When the actual market value of the property is not at any time less than shown in table herewith. (b) When the property is fully covered by insurance (if customary to insure such commodity), and in no event shall this exception apply to obligations of any one customer arising from the same transactions and/or secured upon the identical staples for more than 10 months.	15 percent, secured by 115 percent. 5 percent, secured by 120 percent. 5 percent, secured by 125 percent. ~~5 percent, secured by~~ 130 percent. 5 percent, secured by 135 percent. 5 percent, secured by 140 percent. --- 40 percent in addition to regular 10 percent loan (A).

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(7) Obligations secured by shipping documents or instruments covering livestock or giving a lien thereon having a market value of not less than 115 percent of the amount of the loan.	15 percent in addition to regular 10 percent loan (A).
(8) Notes secured by not less than a <u>like face amount</u> of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States, Treasury bills of the United States or obligations fully guaranteed by the United States as to principal and interest.	15 percent of bank's capital and surplus, <u>in addition</u> to the amount allowed under (A), or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (8) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10 percent, but the aggregate of (A) and (8) may equal, but not exceed, 25 percent.
(9) Loans to any bank or representative in charge of its business, when approved by the Comptroller (Act May 20, 1933).	No limit.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-42

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 1937.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZFUS" - Treasury Bills to be dated August 4, 1937, and to mature December 17, 1937.

"NOZFYN" - Treasury Bills to be dated August 4, 1937, and to mature May 4, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZFOE" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-43
August 3, 1937

Dear Sir:

Referring to the Board's letter B-1186 of January 5, 1937, following is a statement of changes during July in the list of nonmember banks that have filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Additions

Indiana	
Jeffersonville	Citizens Trust Company

Other changes

Delete the "Monongahela Trust Company", Homestead, Pennsylvania, from page 4 of the list and add it to page 5 under the heading relating to banks no longer in operation as nonmember banks with the following note:

"(Admitted to membership in the Federal Reserve System on July 10, 1937.)"

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 3, 1937.

Dear Sir:

The following is an excerpt from the minutes of the meeting of the Conference of Presidents held in Washington on Monday, June 7, 1937:

"DEVELOPING A METHOD OF INDEXING AND OTHERWISE MAKING READILY AVAILABLE THE RULINGS, INTERPRETATIONS, INSTRUCTIONS, ETC., OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

"The Chairman of the Conference appointed an interim committee consisting of Thomas H. Hodgson, Chairman, C. E. Earhart and Herbert H. Kimball, to study this whole matter and to prepare a report after consultation with the staff of the Board of Governors of the Federal Reserve System. This report was presented and considered and after discussion it was

"VOTED to accept the report and to approve the recommendations."

The Interim Committee recommended in its report of May 28, 1937, that there be established and maintained by the Board of Governors of the Federal Reserve System a loose-leaf service for use by the Board, its staff and the Federal reserve banks, embracing the following material:

1. The Board's regulations;
2. The Board's proposed Digest of Rulings;
3. Board communications containing such of its rulings and interpretations of law or regulations as are still effective and are not contained in the new Digest of Rulings;
4. One consolidated, detailed index of the foregoing material and of those instructions of the Board which are still effective and are contained in communications which were distributed to all of the Federal reserve banks.

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It is understood that Mr. Hodgson furnished you with a copy of such report which contains the Committee's findings and conclusions in detail. If additional copies of the report are desired, they may be obtained from this office upon request.

On July 30, 1937, the Board of Governors approved the recommendations contained in the Interim Committee's report, and authorized its staff to undertake the work incident to the establishment and maintenance of the proposed service. In this connection, it is anticipated that the task of establishing the service will require a considerable amount of time on the part of the members of the Board's staff over a period of months. However, the work will be performed as rapidly as may be consistent with demands made upon the time of the staff in connection with more pressing matters and for the handling of the current work of the Board.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-45

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers of Saturday, August 7, 1937.

August 5, 1937.

Attached is a brief description of the new building of the Board of Governors which will be occupied on Monday, August 9.

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FEDERAL RESERVE BUILDING

Location

Facing south on Constitution Avenue, the building of the Board of Governors of the Federal Reserve System occupies the square extending north between Twentieth and Twenty-first Streets to C Street. When the present temporary structures known as the Navy and Munitions Buildings on the south side of Constitution Avenue are removed, the Board's building will command an unobstructed view of the Mall and West Potomac Park with the Reflecting Pool and the Lincoln Memorial in the immediate foreground and with the Potomac River, the Memorial Bridge and the Virginia shore just beyond.

The building forms a part of a group along the north side of Constitution Avenue composed of the buildings of the Pan-American Union, the Public Health Service, the Federal Reserve, the National Academy of Sciences and the American Pharmaceutical Association.

Selection of Site

Since its organization in 1914 the Federal Reserve Board has occupied quarters provided for it in the Treasury Building and rented space in various privately owned office buildings. On June 19, 1934, Congress authorized the Federal Reserve Board to acquire a building site in the District of Columbia and to construct a building suitable and adequate in its judgment for its purposes. A careful survey resulted in the selection of the present site which was approved by the National Capital Park and Planning Commission, by the Secretary of the Interior, who recommended it to the President, and by the President. Title was transferred to the Board by the Secretary of the Treasury on January 22, 1935, the purchase price paid by the Board being $754,583. Included in this acquisition is the vacant block lying immediately north of the building between Twentieth and Twenty-first Streets on C Street and a passageway under C Street has been constructed to connect the two properties.

Competition for Selection of Architect

The Board engaged Everett V. Meeks, Dean of the School of Fine Arts in Yale University, as its professional adviser in preparing a program for a competition to enable the Board to select an architect for the building, under the supervision of the Chairman of the Board's Building Committee, Adolph C. Miller. The program was approved by the Commission of Fine Arts, the National Capital Park and Planning Commission and the American Institute of Architects. During formulation of the program the Board had the benefit of the advice and assistance of the National Park Service of the Department of the Interior. Invitations to participate in the competition were sent to nine of the leading

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architects of the United States, after consultation with the Chairman of the Commission of Fine Arts, and a jury to pass upon the designs submitted was selected, composed of three prominent architects, John W. Cross of New York City, William Emerson of Boston, and John Mead Howells of New York City, together with Frederic A. Delano, Chairman of the National Capital Park and Planning Commission, and Mr. Miller. Upon submission of the competitive designs the drawings of Paul P. Cret, of Philadelphia, were given first place by unanimous choice of the jury and this decision was approved by the Federal Reserve Board. Dr. Cret also had been the designer of the buildings of the Pan-American Union and the Folger Shakespeare Library.

Character of Building

The conditions under which the site on Constitution Avenue was acquired provided that the design and material of the exterior of the building should be subject to the approval of the Commission of Fine Arts and that the location of the building in relation to the adjoining streets should be as determined by the National Capital Park and Planning Commission.

The Commission of Fine Arts prescribed that "the material of the exterior of the building is to be of white marble to conform to the other buildings along this portion of Constitution Avenue", and gave its views as to the general architectural character of the building. "The nature of the functions performed by the Federal Reserve Board" in the opinion of the Commission "dictates an architectural concept of dignity and permanence".

The program for the competition of the architects also declared the following general principles:

> "The proximity of the building to the Lincoln Memorial and other nearby permanent structures already erected on Constitution Avenue or to be erected by the Government in the West Rectangle suggests that the exterior design of the building for the Federal Reserve Board should be in harmony with its environment.
>
> "It is, however, thought desirable that the aesthetic appeal of the exterior design should be made through dignity of conception, purity of line, proportion and scale rather than through stressing of merely decorative or monumental features. For this reason it is further suggested that the use of columns, pediments and other similar forms may be omitted and should be restricted to a minimum consistent with the character of the building as described.

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"It is the Commission's view that 'the Federal Reserve Board building must be in general accord with the governmental buildings in Washington--it must seem at home in the city.'"

The studies prepared by Dr. Cret, following his selection as architect, were approved by the National Capital Park and Planning Commission and by the Commission of Fine Arts.

Construction of Building

Plans and specifications drawn as a basis for letting a contract for the construction of the building were approved by the Federal Reserve Board on January 8, 1936. Invitations to bid were issued immediately to contracting firms experienced in the field of construction of Governmental buildings and, following the submission of bids, the contract was awarded to the lowest bidder, the George A. Fuller Company, for $3,484,000. A separate contract had been awarded for the demolition of the existing temporary building on the property, for which the Board received $18,358.

The relation of the net useable area to cubic contents of the building is unusually high. The cost per cubic foot, exclusive of landscaping, was about 89¢.

Construction was begun in February, 1936. In the preparation for construction the Board had the assistance and cooperation not only of the Commission of Fine Arts and of the National Capital Park and Planning Commission, but also of the National Park Service of the Interior Department, of the Procurement Division of the Treasury Department, and of the Architect of the Capitol.

A member of Dr. Cret's firm, William H. Livingston, was his principal collaborator in the design and construction of the building. Associated with them were Moody and Hutchison, mechanical engineers, and William H. Gravell, structural engineer. The Board engaged Fred M. Kramer as its Superintendent of Construction.

Exterior of Building

The mass of the building was designed with a view of harmonizing in a general way with the building of the Academy of Sciences to the west and that of the Public Health Service to the east. Through the use of a similar cornice line the three buildings form a single composition dominated by the central portico of the Federal Reserve Building. The dimensions of the building proper are 344 feet east-west and 242 feet north-south. The plan is H-shaped, with its principal architectural facade on Constitution Avenue and the entrance for general use on C Street.

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The facades have the simplicity of treatment of American architecture contemporary with the creation of the City of Washington, which has been called the Architecture of the Republic or Federal Architecture. Both exteriors and interiors rely on harmony of proportion rather than on ornamentation.

The entrance on Constitution Avenue is marked by a simple architectural motif of piers surmounted by an American eagle in white marble, of which Sidney Waugh was the sculptor.

The entrance on C Street is marked by two pylons, which support figures in bas relief, symbolizing the United States on one side and the Federal Reserve System on the other. These figures were designed by John Gregory.

The exterior of the building is of Georgia white marble. In contrast with the simple white marble wall surface is the design of the bronze windows, with spandrels of polished Swedish granite, on which bronze plaques are mounted. In the courts the spandrels are Alberene stone. The bronze balconies on Twentieth and Twenty-first Streets are especially interesting as they reproduce the railing of an old Philadelphia residence of the early part of the nineteenth century.

Landscape

A special treatment of the approach from Constitution Avenue was made possible by the fact that the building is set back approximately two hundred feet from Constitution Avenue. This permitted an interesting composition of terraces and steps leading to the main entrance. These terraces are flanked on each side by a formal garden, the central motif of which is a fountain of black Coopersburg granite surrounded by pebble mosaic and marble borders.

The courts on the east and west sides, which give access to the ground floor of the building, are formal in character with planting designed to focus attention on wall fountains which face the bronze entrance gates. The mask forming part of the decorative composition for the fountain in the west courtyard was designed by Walker Hancock. More than twenty varieties of plant materials have been placed in the Constitution Avenue gardens and courtyards.

The landscaping was designed by Dr. Cret and approved by the National Capital Park and Planning Commission and by the Commission of Fine Arts. The planting materials were selected by William H. Frederick, of the office of the Architect of the Capitol.

Interior Design

The Constitution Avenue entrance opens into a lobby, the east wall of which contains a portrait relief of President Wilson, modeled

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by Herbert Adams. The inscription refers to President Wilson as the "Founder of the Federal Reserve System" and contains the following quotation from his first inaugural address:

> "We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon; and step by step we shall make it what it should be."

The lobby walls are faced with Kansas Lesina stone and the plaster ceiling is decorated with motifs of Greek coins and a relief of Cybele. In the center of the marble floor is a bronze plaque reproducing the seal of the Board of Governors.

While the building faces on Constitution Avenue, it is expected that the C Street entrance will be used more generally. A corridor extends from the Constitution Avenue entrance through the central portion of the building to the C Street entrance. A group of passenger elevators is located near the C Street entrance, while single elevators are located near the Constitution Avenue lobby.

A monumental staircase in the central portion of the building leads from the first to the second floor. The steps, walls and architectural treatment of the stairs in this portion of the building are of travertine, while the floors are of American marbles, with mosaic borders on the second floor. The ceiling is composed of glass, with the coat-of-arms of the United States in bronze and molded glass as the focal point of interest above the monumental stairs. The ceilings of the surrounding corridors on the second floor are decorated with emblems of the twelve Federal reserve banks. Over each of twelve doorways opening from these corridors--six on the west side and six on the east side--are the names of the cities in which the Federal reserve banks are located and the designations of their districts. One of the interesting features of this portion of the building is the wrought iron work of Samuel Yellin.

From the upper landing of these stairs the section set apart for the members of the Board of Governors and their immediate staffs on the second floor of the Constitution Avenue wing is entered through an elliptical anteroom, adjoining which is a reception room. This portion of the building, entirely separate from other sections of the building, accommodates the private offices of the Chairman and other members of the Board, the Board room, the Board's conference room and the Board's library. In the floor of the corridor at the main entrance to the Board room is a bronze seal of the Board of Governors.

The Board room, 56 x 32 feet, the main entrance to which is in front of the elliptical anteroom, has a monumental fireplace, of

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Tavernelle Fleuri marble, at the west end. A bronze relief, set into the marble, symbolizes stability and productivity. In the wall above the mantel is a reproduction of the coat-of-arms of the United States. On the east wall of the room is a Federal Reserve map of the United States, painted by Ezra Winter. The floor is Fontainebleu pattern parquet, with border of Belgian St. Anne Petit Melange marble. The bases of the walls and the doorways are of Tavernelle Fleuri marble. The walls and ceilings are of painted plaster. Bronze frames hung upon the walls contain statistical charts.

The furniture, furnishings and lighting fixtures of this section of the building were selected by the Board's architect with a view to maintaining a harmonious relation with the character and period of the architectural design. In this and other parts of the building marbles of various colors and textures, of which there are twenty-eight in the interior portions, have been used with an eye to harmony of color scheme between painted plaster work, woods used in doors and walls, and furnishings of rooms.

Staff offices

The Secretary's offices, the Legal Division, with its library, the Board's Fiscal Agent, and the Building Manager are located on the first floor. A central filing system in the north central portions of the first and second floors serves all parts of the Board's organization. In the C Street wing of the second floor are the offices of the Board's Division of Examinations and Division of Security Loans.

The third floor is occupied by the Board's Division of Bank Operations and the Division of Research and Statistics, with its library.

The fourth floor covers only the middle branch of the H form of the building and includes a cafeteria, dining rooms, first aid and rest rooms. A flagstone terrace over the west wing of the third floor is reached from the cafeteria.

The ground floor contains service facilities, including a garage, mechanical equipment, mail and telegraph offices, telephone exchange, duplicating sections and repair shops, together with spaces for various storage purposes.

Mechanical Equipment

The building is airconditioned throughout with an automatic thermostatic control system designed to permit flexible operation. Steam is obtained from the central power plant of the Government, no power being manufactured within the building.

Well-lighted offices, acoustic treatment of the ceilings, convenient locations of stairs, elevators of the latest automatic type, and careful planning combine to make the building efficient for administrative purposes.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-46

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1937

SUBJECT: Audit of Incomplete Federal Reserve notes.

Dear Sir:

For your information there is inclosed a recapitulation of an audit submitted to the Secretary of the Treasury by Mr. H. M. Pearson, Acting Chief, Division of Public Debt Accounts and Audit, showing the stock of incomplete face printed Federal Reserve notes, Series of 1928 and Series of 1934 combined, and of uniform backs allocated to Federal Reserve notes, on hand at the Bureau of Engraving and Printing at Washington, as at the close of business June 30, 1937.

In his letter transmitting the report to the Secretary of the Treasury, Mr. Pearson stated that: "The audit extended from June 29 to July 1, 1937, inclusive and consisted of a piece count of the entire stock of faces, Series of 1934, and a package count of the uniform backs, allocated to Federal Reserve notes. All stocks of Federal Reserve notes, Series of 1928, with the exception of those retained by the Bureau for specimen purposes, were piece counted and placed under the Auditor's seal prior to the audit. An inspection was made of the seals on the various bins containing these stocks and the seals were found to be intact. In view of the fact that a recent piece count has been made by this office of the

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entire stock of each denomination of uniform backs on hand in the Bureau, a package count and an inspection for denominations of the uniform backs allocated to Federal Reserve notes was deemed sufficient at this time. The total sheets of Federal Reserve notes, faces and backs, were found to be in excess of the required reserve of 4,250,000 sheets, as authorized in the letter of the Governor of the Federal Reserve Board to the Under Secretary of the Treasury dated December 2, 1929."

Of the total of 2,816,892 sheets of faces covered by the audit, 682,551 sheets are of the Series of 1928. There has been no change in the number of sheets of faces of the various denominations of the Series of 1928 notes since the audit of June 30, 1936.

Very truly yours,

ELSmead

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

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Federal Reserve Bank of St. Louis

R-46-a

R E C A P I T U L A T I O N

FEDERAL RESERVE NOTES, SERIES OF 1928 AND SERIES OF 1934, AND UNIFORM BANKS ALLOCATED TO FEDERAL RESERVE NOTES, SHEETS OF 12 SUBJECTS EACH

AS AT THE CLOSE OF BUSINESS JUNE 30, 1937

Federal Reserve Bank	$5	$10	$20	$50	$100	$500	$1,000	$5,000	$10,000	TOTAL
Faces:										
Boston	81,602	102,393-2/3	40,000	8,150	14,686-1/3	1,576	493	40	44	248,985
New York	145,066-2/3	176,926-1/3	156,328-2/3	42,735-1/3	42,102	497	695	52	31	564,434
Philadelphia	76,733-1/3	158,424	43,333-1/3	32,772-2/3	11,887-1/3	479	200	--	--	323,829-2/3
Cleveland	84,678	62,400	41,914-2/3	26,572-2/3	13,139-1/3	130	317	75	50	229,276-2/3
Richmond	42,505-1/3	41,100	41,966-2/3	16,609-2/3	9,082	570	426	122	127	152,508-2/3
Atlanta	31,775	37,300	29,433-1/3	5,501-1/3	6,989-1/3	600	402	124	80	112,205
Chicago	128,867-2/3	144,248-2/3	131,591-2/3	37,357-2/3	32,261	1,098	852	169	122	476,567-2/3
St. Louis	57,442-2/3	29,006-2/3	31,666-2/3	6,495-1/3	5,727-2/3	874	500	90	49	131,852
Minneapolis	26,133-1/3	23,400	22,233-1/3	5,321	6,628-1/3	445	168	--	--	84,329
Kansas City	36,507-1/3	26,166-2/3	18,200	5,498-1/3	9,086-1/3	552	202	110	61	96,383-2/3
Dallas	28,166-2/3	42,371	26,433	3,700	3,695-1/3	460	450	99	52	105,427
San Francisco	36,100	111,466-2/3	113,864-2/3	10,641	17,661-1/3	600	526	140	94	291,093-2/3
Total Faces	775,578	955,203-2/3	696,966	201,355	172,946-1/3	7,881	5,231	1,021	710	2,816,892
Backs:										
Uniform Backs allocated to the various denominations of Federal Reserve Notes	568,500	656,500	630,500	149,000	120,500	--	--	--	--	2,125,000
Total Faces and Backs	1,344,078	1,611,703-2/3	1,327,466	350,355	293,446-1/3	7,881	5,231	1,021	710	4,941,892

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS

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Federal Reserve Bank of St. Louis

R-47

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

August 5, 1937.

Dear Sir:

In response to a request for an expression of its views with reference to S.1990, a bill introduced by Senator Thomas of Oklahoma on March 25, 1937, for the regulation and stabilization of agricultural and commodity prices through the regulation and stabilization of the value of the dollar, and for other purposes, the Board of Governors has adopted a statement setting forth what it believes should be the objectives of monetary policy. As the statement was subsequently made public by being introduced into the record of its hearings on S.1990, by the subcommittee of the Senate Committee on Agriculture and Forestry, copies are being sent to the Federal reserve banks for the information of the officers and directors who may be interested in seeing the complete text.

Twenty-five copies of the statement are going forward to you under separate cover. If additional copies are desired, they may be obtained from the Board on request.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-48

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 6, 1937.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZGAP" - Treasury Bills to be dated August 11, 1937, and to mature December 18, 1937.

"NOZGEL" - Treasury Bills to be dated August 11, 1937, and to mature May 11, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZFYN" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-49

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1937.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of July, 1937.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 1937

Federal Reserve Bank	Number of words sent	Words sent by N. Y. chargeable to other F.R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Boston	38,271	1,603	39,874	$ 251.78	$ —	$ 251.78	$ 671.90	$ 251.78	$ 420.12
New York	138,785	—	138,785	994.67	—	994.67	2,338.62	994.67	1,343.95
Philadelphia	33,236	1,632	34,868	236.61	—	236.61	587.55	236.61	350.94
Cleveland	46,584	1,665	48,249	259.82	—	259.82	813.03	259.82	553.21
Richmond	60,588	1,685	62,273	195.70	—	195.70	1,049.34	195.70	853.64
Atlanta	63,145	1,564	64,709	276.07	—	276.07	1,090.39	276.07	814.32
Chicago	84,195	1,884	86,079	1,247.30	—	1,247.30	1,450.49	1,247.30	203.19
St. Louis	74,444	1,567	76,011	188.13	—	188.13	1,280.83	188.13	1,092.70
Minneapolis	27,803	1,557	29,360	184.82	—	184.82	494.73	184.82	309.91
Kansas City	64,402	1,659	66,061	259.18	—	259.18	1,113.17	259.18	853.99
Dallas	59,000	1,558	60,558	267.55	—	267.55	1,020.44	267.55	752.89
San Francisco	85,956	1,664	87,620	473.04	—	473.04	1,476.45	473.04	1,003.41
Board of Governors	477,608	—	477,608	2,261.80	14,338.47	16,600.27	8,048.00	16,600.27	—
Total	1,254,017	18,038	1,272,055	$7,096.47	$14,338.47	$21,434.94	$21,434.94	$21,434.94	$8,552.27

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.016850639) for business handled during the month.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1937.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZGIN" - Treasury Bills to be dated August 18, 1937, and to mature December 18, 1937.

"NOZGOB" - Treasury Bills to be dated August 18, 1937, and to mature May 18, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZGEL" on page 172.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1937.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of July, 1937.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
July 1 to 30, 1937.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	25,000	130,000	$12,480.00
New York	175,000	40,000	215,000	20,640.00
Philadelphia	204,000	25,000	229,000	21,984.00
Cleveland	70,000	25,000	95,000	9,120.00
Richmond	45,000	20,000	65,000	6,240.00
Atlanta	45,000	-	45,000	4,320.00
Chicago	100,000	50,000	150,000	14,400.00
St. Louis	40,000	20,000	60,000	5,760.00
Minneapolis	30,000	-	30,000	2,880.00
Kansas City	35,000	-	35,000	3,360.00
Dallas	15,000	-	15,000	1,440.00
San Francisco	204,000	35,000	239,000	22,944.00
	1,068,000	240,000	1,308,000	$125,568.00

1,308,000 sheets, @ $96.00 per M,........$125,568.00

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R-52

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 17, 1937.

SUBJECT: Monthly Report of Bank and Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal reserve banks for the month of July in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL F. R. BANKS

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Federal Reserve Bank of St. Louis

R-52-a

August 12, 1937.

TO: The Board SUBJECT: Summary of Bank Relations Reports.

FROM: Mr. Hammond,
Division of Bank Operations.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of July and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The attitude toward the Federal Reserve System

The reports reflect the usual attitude of friendliness toward the Federal Reserve System, but with nonmembers generally indifferent toward membership. Opposition to public ownership of the Federal Reserve banks appears to be frequently expressed. Exchange charges are the most frequently mentioned feature tending to keep banks out of the System, and there continues to be considerable complaint by small member banks of the increased reserve requirements.

Banking conditions

There continues to be mention of the difficulty which banks experience in investing their funds profitably. The reports indicate that some communities have too many banks and others none at all. At the same time there is mention of the difficulty of effecting mergers and of the opposition to the establishment of branches.

General economic conditions

The reports from agricultural regions both south and west again indicate strikingly improved conditions on the whole; though there are certain sections - for example, northern Montana - where crop prospects are bad. In the west there appears to be considerable optimism as to prices for farm products. Reports from industrial regions on the whole indicate less activity and optimism than reports from rural regions.

Excerpts from the reports follow: (The reports themselves are attached to the original hereof).

Boston

Fifty-nine member banks and two nonmember banks were visited during July (43 in New Hampshire, 14 in Vermont, 3 in Rhode Island, and 1 in Massachusetts).

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Boston continued

In practically every community bankers, business men, and others interviewed referred to the condition of business as being good. Payrolls are said to be at or above the levels of a year ago, and local merchants in most lines are experiencing a marked increase in sales.

While still far from satisfactory to the bankers, the earning position of their institutions is noticeably stronger. The percentage of deposits absorbed by commercial loans has increased in the case of almost every bank, and except for a few well-secured collateral loans, the lending rate is 6 percent. Rates on mortgage loans run from 5 percent to 6 percent and loans to towns, made in anticipation of taxes, run from $3\frac{1}{2}$ percent to $4\frac{1}{2}$ percent. The bond portfolios of most of the banks are said to be yielding around 3 percent.

Complaint against the System centers almost entirely around the increased reserve requirement, and the complaint comes almost entirely from the smaller banks. Several of the bankers stated that in so far as the increased reserve requirement is a part of the Government's monetary policy designed to prevent recurrence of conditions which brought about the bank holiday, they are wholeheartedly for it. At the same time they feel that the increase works a decided hardship on the small country bank. On the part of one or two bankers, the feeling exists, and was expressed, that the increase was made for no other reason than to enable the Federal reserve banks to support the Government bond market.

A few bankers indicated their intention to increase their holdings of Government bonds and inquiry was made as to what would be the reserve bank policy of lending on government issues, should they at any time be quoted under par - would Reserve bank loan at par?

Several of the towns visited are apparently over-banked, and the matter is one that has been, and is, of growing concern to the bankers therein. For one reason or another, principally, it is believed, because consolidations might eliminate certain individuals, there is hesitancy on the part of the banks to come out in the open and discuss possible mergers. In one or two cases bankers involved have stated that they believe adoption by supervisory authorities of a vigorous policy designed to create one or more strong, profitable banking institutions in a community through the merger of banks of mediocre strength, would be effective.

New York

Fairfield County, Connecticut (principal city Bridgeport)

The rate charged on commercial loans ranges from $1\frac{1}{2}$ to 6 percent, depending on the type of loan and risk involved. The rate maintained on

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Federal Reserve Bank of St. Louis

New York continued

collateral loans varies from $3\frac{1}{2}$ to 6 percent, most loans bearing a rate of 5 percent. Mortgage loan rates run from 5 to 6 percent, and one bank has an arrangement with a life insurance company to take mortgage loans at $4\frac{1}{2}$ percent.

Most of the banks have experienced a better demand for loans during the first six months of this year. The expansion while quite general, is largely due to increased demand for mortgage, personal, and installment loans. Eight banks have made Federal Housing mortgage loans and of this group three have granted the major portion, one loaning about $1,000,000, another $736,000 of which amount $610,000 were sold to savings banks and insurance companies, and the third bank (a savings bank) about $350,000. A considerable number of mortgage loans on new homes built in the county during the last few years have been placed with life insurance companies; many of these loans have been handled through a bank in Greenwich.

Of the sixteen nonmember commercial banks only one indicated that it is still considering the subject of membership but no early action is expected. Two banks have insufficient capital to qualify for membership and one other institution decided against qualifying for permanent deposit insurance.

Union County (Northwestern New Jersey; principal city, Elizabeth)

Several bankers commented that the general decline in bond prices has reduced security profits which were a considerable factor in their net earnings during the past two or three years, and that there has been no appreciable increase in income from loans to offset the shrinkage in profits.

The executive officer of one of the Savings banks of Elizabeth says that of the twenty-three savings banks in the State, twelve are members of the Federal Deposit Insurance Corporation and eleven are not members of that corporation and, accordingly, carry no form of insurance for depositors.

Clinton, Essex, and Franklin Counties (Extreme northeastern New York)

This territory is served by nineteen banking institutions - sixteen member banks, two nonmember state banks, and one private bank. None of the banks in this area have any branches and the officers of these institutions appear to be opposed to the development of branch banking within the territory. Champlain and Rouses Point, two communities situated over twenty miles north of Plattsburg, their nearest banking center, each formerly had a bank but have been without banking facilities since 1931. Brushton and Fort Covington, two communities in Franklin County, which formerly had banks, are also now without banking facilities. There are no nearby banks with capital sufficient to permit establishing branch

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Federal Reserve Bank of St. Louis

New York continued

banks in these villages, and since both places are small there is doubt as to the real need for a bank or branch.

In this territory farming and summer resort business are the principal sources of income. Farmers are said to be in a more comfortable position than in several years, and in the areas along Lake Champlain and in the Adirondack State Park the volume of business derived from summer residents, vacationists, and tourists has shown an improvement.

Orange, Putnam, and Rockland Counties (Southeastern New York)

Several bank officers in Orange County discussed the activities of the Production Credit Association. The feeling of the majority is that this agency serves a distinct need by lending to farmers who are unable to qualify for bank loans. Three officers, however, expressed strong disapproval of its activities, one saying that, in his opinion, there are too many governmental agencies lending money to farmers with little or no prospect of its being repaid at any future date. Another objected because two good loans had been taken away from his bank and refinanced through the Production Credit Association; and the third disapproved because he had similarly lost a loan, which he considered good, due to having been compelled by the examiners to press for payments.

Philadelphia

Four counties in Eastern Pennsylvania and one in New Jersey

The banks in the sections covered by this report in which good industrial conditions exist report an increase in deposits with good loan liquidation, but generally poor credit demand. Because of the declining demand for credit and the low yield on securities, many institutions have established personal loan departments or are making a practice of extending loans of this type without the formality of regularly established departments in an effort to bolster income. Nearly all of the banks visited have a maximum rate of 2 percent or less on time and savings deposits, and, while every effort is made to maintain the 6 percent loaning rate, good risks have little difficulty in getting money for less.

Several of the larger banks visited had, in the past been heavy purchasers of prime commercial paper and the executive officers of these banks commented upon the scarcity of this type of investment today. In each instance they contrasted their experience with this investment with their less fortunate experience in the purchase of securities. While some of these banks are able to obtain a limited amount of prime commercial paper today, they cannot, by any means, purchase as much as they would like to have.

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Federal Reserve Bank of St. Louis

New York continued

Information obtained would indicate that there has been a definite recession of business in many lines of industry, some of which is not seasonal. For example, in the slate and cement industries this decline is contrary to what might be expected at this season of the year. However, these industries fared well during the past winter. The silk and textile industries feel the effects of southern competition which, because of its low labor costs, is able to undersell the northern manufacturers. The sections visited do not show any appreciable amount of distress due to labor conditions but there have been enough strikes and threats of strikes to cause concern and, too, the local businesses have felt the effect of major strikes in other parts of the country.

As indicated in the several county reports, residential building is slack. This is said to be due to the high cost of labor and materials. Generally speaking the real estate situation is improved due to the better rents which are obtainable. In some communities rents are believed to be nearing that point at which tenants feel it is more advantageous to buy than to rent. The general public, however, was reported to have become more tax-conscious. Furthermore, it was said they have not forgotten losses incurred through the decline, several years ago, in real estate values.

Agricultural conditions are highly satisfactory. In every community where agriculture is an important producer of income, it was reported that crops were good and that the prices now being obtained were high enough to yield a profit for the farmers.

Some of the bankers in this section profess to have lost faith in the F.H.A., due to the class of mortgages being guaranteed, and say they have discontinued presenting applications for the guarantee. Several say they feel that there will be a reckoning later and that if statements are re-checked many will be found to be false in which event they say the insurance will be cancelled by the F.H.A. leaving the holders with very undesirable mortgages on their hands.

Cleveland

With the exception of courtesy calls on a few member and nonmember banks in Cincinnati and its immediate vicinity, no visits were made during the month.

Richmond

In our current visits and talks with nonmember bankers the same objections to membership were voiced as heretofore; that is to say, the loss of revenue from exchange and the numerous regulations which in many cases it is believed would add to a complicated method of operation

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Federal Reserve Bank of St. Louis

Richmond continued

involving many reports and statistical figures. We also find many non-member bankers who tell us that for various reasons, such as certain criticized assets which must be removed or adjusted, their banks are not yet ready to make formal application.

Our representatives report that in sections visited by them in July business men and bankers are more optimistic about the general business situation than in the month previous. The agricultural outlook seems to be excellent, but our representatives have not yet obtained the reaction of bankers in the Carolinas to the drastic decline in cotton prices recently experienced and now under way. It is reported to us that the tobacco crop has suffered some damage from blue mold.

Our representatives report a disposition on the part of member banks, in agricultural sections particularly, to entertain the idea that they would be subjected to severe criticism if they borrowed money for their seasonal needs or otherwise. In correspondence with our member banks we have also encountered this feeling: that some other means of financing must be found, at least at present, to prevent showing money borrowed from the Federal Reserve Bank or elsewhere. There are various explanations of this attitude, principally a recollection of the criticism directed at banks heavily in debt before and after the banking moratorium. Our position in such cases has been that it is perfectly normal and natural for a member bank to borrow, for its seasonal needs and emergencies, in reasonable amounts, and that the criticism directed to borrowed money was because of its continuous and excessive degree in many cases. In sections of the district not essentially agricultural, it has been pointed out to us that a seasonal demand has entirely disappeared as far as the banks are concerned, since this function is now being performed largely by manufacturers and jobbers. Our representatives report frequent comments by member banks that if the occasion to borrow should arise and could not be avoided they would apply to their commercial bank correspondents since they can obtain a more favorable rate from them as compared to our discount rate and, as they express it, arrange the transaction with greater facility. Our representatives are told and report to us that improved communication and transportation facilities have made smaller inventories practical, and if small merchants require credit of consequence they are likely to be able to arrange it without difficulty through the manufacturer or wholesaler on favorable terms.

One member bank reported that it had borrowed money from a correspondent rather than from us, at a rate of one and one-half percent.

Atlanta

The months of July and August being the vacation period for a large number of the bankers in this district, the only visits made were

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Federal Reserve Bank of St. Louis

Atlanta continued

to two member banks and eight nonmember banks located in the northeastern portion of the State. In this section cotton and corn are the principal crops grown. The bankers visited reported that the farmers have the best crop prospects for several years. Weather conditions in the main have been excellent. Cotton stalks are exceptionally large but on some farms it is claimed they do not have as many bolls per stalk as the size of the weed would indicate they should have. It was also reported that the boll weevil is very active and unless the hot weather that prevailed during the month of July continues well into August the cotton crop will be substantially curtailed. All crops along the highway appear to have been well cultivated and are advanced for the season.

The bankers reported a satisfactory volume of loans to farmers, although some claim that the Production Credit Associations have been very active and obtained loans that the local banks would have been glad to make. They claim that the Federal Land Banks, the Home Owners Loan Corporation and the Seed Loan Agency are of material benefit to their communities, but that in their opinion there is now no need for the Production Credit Associations.

None of the eight nonmember banks visited are on the par list and the statement was made that exchange charges on incoming cash letters amount to substantial earnings and that because of this revenue they are not interested in membership at this time. However, the bankers were very cordial and indicated that they would seriously consider applying for membership were it not for the exchange feature.

Chicago

Very little change in banking conditions has occurred since the last report. There is still the usual lack of demand for local loans.

Member banks express themselves as being satisfied with membership in the System and usually refer to the benefits derived from the currency and safekeeping facilities. No complaints were heard, although one small bank referred to the increased reserve requirements and stated that in order to get certain services from their correspondent bank to which they had been accustomed, it is now necessary for them to keep a total reserve of about 20 percent. However, this bank felt that the advantages of membership outweighed this disadvantage.

A few of the nonmember banks called upon are considered good prospects for membership. Of those banks which are not likely to make application in the near future, a few give as their reasons - condition of the bank, the fact that they have or expect to establish offices, reserve requirements, and too many regulations. The majority, however, seem to lack interest or feel that there is no necessity for joining at

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Federal Reserve Bank of St. Louis

Atlanta continued

this time. One banker stated frankly that while he had a great deal of respect for the accomplishments of the Federal Reserve System and would like his bank to be a member, it would cost them in exchange charges approximately $1,800 per year, as the bank is not now on the par list.

Agricultural prospects continue good, although in some sections rain is needed.

Business conditions generally are reported as satisfactory.

St. Louis

General conditions in the communities visited (in Illinois and Missouri) are considered the best in recent years.

In spite of too much moisture early in the season, which cut down the yield and lowered the quality, the wheat crop is good and is bringing prices which assure growers of receiving as much or more than they did last year with a larger crop. Cash received from wheat sales is being used to purchase farm equipment and long-needed supplies.

Corn is in wonderful condition and there is every indication of a large harvest. No damage is as yet evident from lack of moisture. Oats will be plentiful and there is indication of a fine hay crop, especially alfalfa. Roughage crops are reported to be in good condition.

Farming communities visited during the month are still suffering from the effects of the short feed crop in 1936. Most farmers were compelled to purchase feed for live stock, and many were forced to sell stock because they had no feed and could not obtain advances on account of lack of collateral. Milk production declined and hog feeding was largely suspended. Feeding of cattle and hogs is now being resumed in view of the splendid outlook for this year's harvest.

Stores report business has held up well, for which considerable credit is given to the increased purchasing power of the farmers.

Coal mines in communities visited in Southern Illinois operated at capacity during the winter, and employment was steady and satisfactory. The customary summer lull is now taking place, and mines are operating only two or three days a week, but after October 1 they will probably resume full-time production.

Minneapolis

Northern Montana

With but few exceptions the local demand for money is light and the bankers do not expect much pickup during the remainder of the year.

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Minneapolis continued

Rates on character and chattel mortgage loans range from 6 to 10 percent, averaging about 8 percent. One banker with a number of loans at 10 percent, said that he considered many of them very speculative. Quite generally the bankers are extremely conservative in making farm loans and a state moratorium law which expires January 1, 1939, undoubtedly inhibits them from doing so more freely. Several banks have had very satisfactory experiences in handling automobile contracts. At Great Falls, one of the banks had just received detailed information from an Oklahoma bank with respect to making "oil loans" and is giving this matter careful study.

Many of the banks are paying a rate of 2 or 2½ percent on time deposits, although in several of the larger cities the rate is only 1 percent. In Glasgow, where there is a national and a state member bank, neither bank pays any interest on such deposits.

Due to poor crop prospects for this year and unsatisfactory local conditions, two nonmember banks indicated that they contemplate liquidation.

Many of the banks visited serve an extremely large area which is thinly populated. In many of these banks the volume of business handled at the present time is comparatively light but the banks expect, in most instances, to experience an increased demand for their services under normal conditions. At Libby, in the extreme western part of Montana, attention was called to the fact that the distance from Minneapolis to Libby was about the same as the distance from Minneapolis to Boston. The state member bank at this point, however, seemed pleased with the services they receive from the Minneapolis office and the Helena Branch.

Heavy rains in some sections about the end of the first week in June revived hopes for the grain crop and for feed. In the northeastern corner and in the north central part of the state, the moisture was insufficient and many discouraging reports were received here from the bankers. Prospects for the winter wheat crop were poor in this territory. In some sections where they had shipped out an almost unbelievable amount of grain under ordinary conditions, it was estimated that the grain crop this year would range from 15 to 25 percent of normal.

Southwestern Minnesota

In the territory visited, there was every evidence of sufficient moisture for all crop production. Rye had been fully harvested. Oats and barley were being harvested. The condition of these crops was excellent. Corn is not "made" but a better or more promising crop is seldom seen. Present market prices have produced an optimism which was apparent in all business. Not only are the markets for crops on a profit basis to the farmer, but the markets for live stock and poultry are

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Minneapolis continued

extremely good. Beef, pork, and mutton are at very high levels, and poultry, including turkeys, can be now contracted for sale at a profit.

All the banks visited showed considerable gains in deposits over a year ago. Every one of them disclosed greater earnings than in any year since 1930. Many of these banks had distributed dividends at the close of last year's business. Interest paid on deposits varies from 1 to $2\frac{1}{2}$ percent; interest received, from loans 4 percent and $4\frac{1}{2}$ percent on real estate security to generally 7 percent and 8 percent on secured chattel loans. Banks in the county seat towns are liberal purchasers of installment paper, - principally automobile and farm machinery. Their experience in the collection of this paper has been good. With but one or two exceptions, there have been no repossessions. Farm machinery is now sold on the basis of not less than one-third cash, one-third in one year, and the last third payable in two years.

Bankers and feeders of live stock appeared to be in a quandary. The remarkable corn crop if it "makes" will produce in such quantities that if corn production in other states is normal, the market price will be low, but the price for feeder cattle is so high, there now appears to be a disposition to limit the purchase of feeders.

Some of the nonmember state banks appeared to be very nervous about the activities of the National Credit Men's Association regarding exchange charges. Many of them realize that excessive charges have apparently set in motion an agitation which they fear will eventually deprive them of this source of income.

Officers of some of the smaller banks appear to be concerned about the Patman and McAdoo Bills, - particularly the latter. They are fearful if they lose their income from exchange and the Branch Banking Bill is enacted into law, they will be subjected to branch competition which would cause them more worry.

Kansas City

The continued improvement in the farm outlook is again the outstanding development in the banking situation. A large wheat crop has been harvested and good rains in July, virtually throughout the district, give promise of some corn. With the rains have come more moderate temperatures, which are equally important to corn. A fair corn crop in certain sections of Kansas is nearly assured but Nebraska, where the season is later, will require favorable weather in August. On the whole, the situation is good, for a combination of a wheat and a corn crop in this district is unusual, and the combination of good crops and good prices is even more unusual.

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Kansas City continued

Special significance attaches to the corn prospect this year. Successive years of drought have caused farmers recently to concentrate on crops that mature before the hot, dry weather of mid-summer becomes serious. Another corn crop failure this year would only have accentuated this tendency. Such a situation threatens an undue concentration in wheat production, the end of which may easily be another round of surpluses and low prices. By the same token corn would become even scarcer, hogs fewer, and meat prices higher. A corn crop this year would help to restore the confidence of the farmer in corn and hence do much to maintain a healthy balance in agricultural production. Bankers who have long preached diversification look upon this as one of the most important long-run effects of a corn crop.

Of great importance also is the feed situation. The ranges are in the best shape in years and live stock are in good flesh. Farmers are again raising their own feed for the production of dairy and poultry products.

The movement of new wheat to terminal markets has caused an almost phenomenal increase in deposits at some banks. The harvest season was warm and dry, with the result that wheat matured almost simultaneously over a large part of the Tenth District. This fact, in conjunction with the extensive use of the combine, resulted in large quantities of new wheat that moved at once to elevators where it could be kept in motion while it dried. High prices brought a considerable part of this wheat to the market and this so-called wheat money rapidly expanded the deposits of many banks.

Contacts with banks in recent months indicate that the most important factors working against state bank membership at the present time are such things as the increase in and the uncertainty regarding reserve requirements, the lack of appeal of membership to banks in a strong cash position, and general indifference. But the following excerpt from a letter of a Colorado banker is significant in that it shows the reaction of the small bank in particular to certain phases of bank supervision:

> "We are still giving the matter of membership in the Federal Reserve System our consideration and are still reluctant to make a favorable decision on account of the possibility of having to publish six statements a year. I talked just recently with a state banker whose bank is a member and he said that between trying to digest all of the regulations promulgated from time to time and preparing statements for publication he was kept pretty busy."

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Dallas

South Texas

Inability to find profitable outlets on a short-time basis for idle funds continues to be the chief theme of complaints among both member banks and nonmembers. Most of them view long-term securities with distrust because of the hazard of market fluctuations, and at the same time consider the yield on short-term issues unsatisfactory. The urge to augment earnings appears in many instances to have influenced many bankers to judge investment securities almost wholly on the basis of the rate they bear and the possibility of loss or gain to be anticipated in case of sale.

No new reasons were advanced by nonmember institutions for remaining aloof from the Federal Reserve System.

Crop conditions in the visited area, as in the State of Texas generally, are the best they have been in many years, presaging a prosperity wave of mighty proportions for the approaching autumn unless halted by some unexpected setback.

San Francisco

Oregon - Lower Columbia River Area

Business conditions were found to be very satisfactory. The early fishing season was good, with salmon canneries active and fishermen prospering with good prices for their catch. Dairymen are also getting what appear to be good prices, with butter fat bringing 38¢ per pound. Logging and lumber operations are active, although the lumber market has recently softened considerably, with prices declining $2 to $4 per thousand. Some mills are declining new orders at the current price. Most operators expect the market to strengthen by September and have hopes of active fall trade.

Washington - Snohomish County (Puget Sound basin)

The lumber industry is in a more active condition than for some time past and this applies particularly to the pulp and paper industries. Labor is fully employed and in the city of Everett there is a shortage of homes, causing the mill workers to reside in the adjacent towns, in some instances driving long distances to work. In the eastern end of the county it was reported to us that there are at the present time sixteen logging camps in full operation with substantial pay-rolls.

The various agricultural industries of the county are also in a prosperous condition and vegetable and small fruit canning is under way.

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PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

JULY, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	59	2	61	None	--	None	--
New York	100	39	139	None	--	None	--
Philadelphia	65	23	88	None	--	None	--
Cleveland	13	2	15	2	320	1	30
Richmond	49	71	120	3	425	4	425*
Atlanta	2	8	10	None	--	None	--
Chicago	20	37	57	None	--	None	--
St. Louis	33	11	44	None	--	None	--
Minneapolis	41	77	118	2	109	1	29
Kansas City	5	2	7	1	30	None	--
Dallas	12	6	18	2	175	None	--
San Francisco	34	14	48	6	132	None	--

*Attendance at 1 not reported.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

August 20, 1937.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

SUBJECT: Holidays during September, 1937.

Dear Sir:

On Monday, September 6, Labor Day, the offices of the Board of Governors of the Federal Reserve System and all Federal reserve banks and branches will be closed.

The Board is advised that the following holidays also will be observed during September:

Thursday, September 9	San Francisco Los Angeles	Admission Day in California
Monday, September 13	Baltimore	In observance of Defenders' Day in Maryland which falls on Sunday
Friday, September 17	Philadelphia	Constitution Day in Pennsylvania

On the dates given the offices mentioned will not participate in either the transit or the Federal reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the offices mentioned on each of the holidays with your credits for the following business day. No debits covering shipments of Federal reserve notes for account of the Federal Reserve Bank of San Francisco on September 9 or for the Federal Reserve Bank of Philadelphia on September 17 should be included in your note clearings of those days.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-54

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release August 20, 1937.

The Board of Governors of the Federal Reserve System today announced the following appointments:

FEDERAL RESERVE BANK OF ATLANTA

Birmingham branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:
For unexpired portion of term ending December 31, 1937:
Mr. Edward L. Norton of Birmingham, Alabama

Nashville branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:
For unexpired portion of term ending December 31, 1939:
Mr. W. E. McEwen of Williamsport, Tennessee

For unexpired portion of term ending December 31, 1938:
Mr. Clyde Austin of Greeneville, Tennessee

FEDERAL RESERVE BANK OF KANSAS CITY

Oklahoma City branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:
For unexpired portion of term ending December 31, 1938:
Mr. Clarence Roberts of Oklahoma City, Oklahoma.

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R-55

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers of
Saturday, August 21, 1937.

August 20, 1937.

The Board of Governors today approved the action of the directors of the Federal Reserve Banks at Atlanta and Chicago in reducing the discount rate from 2% to 1½%, effective in the 6th and 7th Federal Reserve Districts, respectively, on August 21, 1937.

The Board's approval was based upon the view that the reduction of discount rates at this time would assist in carrying out the System's policy of monetary ease and make Federal Reserve bank credit readily available to member banks for the accommodation of commerce, business and agriculture, without encouraging member banks to borrow outside of their districts or to liquidate their portfolios in order to be in a position to meet the needs of present or prospective borrowers.

The reduction in discount rates, which have had little or no practical effect during the period when excess reserves were abnormally large and widely distributed throughout the System, brings the rates into closer relation with the interest rate structure generally prevailing, and affords to member banks the benefit of rates, on advances made by the Federal Reserve bank, which are in line with those available in the money market. During the extended period when excess reserves of the banking system were between two and three billions of dollars, the occasion did not arise except in rare instances for member banks to borrow

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from the Federal Reserve banks, and the discount rates were accordingly inoperative as a practical matter.

As a result of the continued progress of the recovery movement, demands of agriculture, industry and commerce for bank accommodation have steadily increased and at the present time are augmented by seasonal requirements, particularly with relation to crop movements. While excess reserves, following the action of the Board in increasing reserve requirements, remain at an unusually high level of approximately $750,000,000 at present for the System as a whole, they are distributed preponderantly among the country banks and not in the money centers. The reduction of the discount rates in the two large agricultural districts of Atlanta and Chicago should serve to assist the member banks to utilize credit directly available in these districts in order to meet banking requirements in connection with crop movements and business needs.

It is the Board's view, therefore, that at this time the Federal Reserve System can best discharge its public responsibility and promote the continuance of recovery by making it possible for member banks to obtain accommodation from Federal Reserve banks at rates which will encourage them to employ their funds to meet the needs of agriculture, industry and commerce.

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R-56

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 21, 1937.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZGUF" - Treasury Bills to be dated August 25, 1937, and to mature December 20, 1937.

"NOZGYZ" - Treasury Bills to be dated August 25, 1937, and to mature May 25, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZGOB" on page 172.

Very truly yours,

S. R. Carpenter
S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-57

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers of Tuesday, August 24, 1937. August 23, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Bank of Minneapolis in reducing the discount rate from 2% to 1½%, effective August 24, 1937.

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Federal Reserve Bank of St. Louis

R-58

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the press

For release in morning newspapers
of August 25, 1937.

August 24, 1937.

The Board of Governors of the Federal Reserve System today announced the following appointment:

FEDERAL RESERVE BANK OF PHILADELPHIA

CLASS "C" DIRECTOR:
For unexpired portion of term ending December 31, 1939:
Mr. Thomas B. McCabe of Swarthmore, Pennsylvania

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Federal Reserve Bank of St. Louis

R-59

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, August 27, 1937.

The following summary of general business and financial conditions in the United States, based upon statistics for July and the first three weeks of August, will appear in the September issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Total volume of industrial production and distribution of commodities to consumers showed little change from June to July, when allowance is made for the usual summer declines.

Production and employment

The Board's seasonally adjusted index of industrial production was 114 percent of the 1923-1925 average in July, the same as in June and 4 points lower than in March, April, and May. At steel mills, where output in June had been curtailed by strikes, activity increased considerably in the early part of July and was maintained at the higher level between the middle of July and the third week of August. Lumber production also increased in July, while output of plate glass showed a substantial decrease. Automobile assemblies declined seasonally. Output of non-durable manufactures decreased considerably, owing largely to a marked decline in activity at cotton and woolen textile mills. Meat packing also declined, while flour milling and sugar refining increased. At mines, output of anthracite was reduced in July, while output of most other minerals showed little change.

Construction contracts awarded, as reported by the F. W. Dodge Corporation, were maintained in July at the level reached in June. Non-residential

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construction expanded further, reflecting principally a large volume of awards for iron and steel plants and for railroad projects. Residential building showed a seasonal decline.

Factory employment increased somewhat from the middle of June to the middle of July, when a decline is usual, and factory payrolls decreased less than seasonally. The largest increases in employment were in the steel industry and in the food industries, particularly at canning factories. Other manufacturing industries as a group showed somewhat less than the usual seasonal decline.

Agriculture

A cotton crop of 15,593,000 bales, representing an increase of 3,200,000 bales over last season, was forecast by the Department of Agriculture on the basis of August 1 conditions. Official estimates indicate that other major crops will be considerably larger than last season and about equal to the average for 1928-1932. Preliminary estimates by the Department of Agriculture indicate that cash farm income, including Government payments, will total $9,000,000,000 for the calendar year 1937, an increase of 14 percent over 1936.

Distribution

Distribution of commodities to consumers in July continued at the level of other recent months, when allowance is made for the usual summer decline. Sales at department stores and variety stores showed slightly less than the seasonal decrease in July, while mail order sales declined somewhat more than seasonally. Freight-car loadings increased, reflecting in part larger

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shipments of grains and forest products.

Commodity prices

From the middle of July to the third week of August prices of grains and cotton declined substantially, while livestock and meats showed a further increase. Automobile prices were raised by most producers, carpet prices advanced, and there were increases in several industrial raw materials, including hides, zinc, lead, and steel scrap. Cotton goods and rubber declined somewhat.

Bank credit

From the middle of July to August 4, excess reserves of member banks were sharply reduced from $960,000,000 to $700,000,000, but subsequently they increased to $780,000,000 on August 18. These changes in member bank reserves reflected principally fluctuations in the volume of Treasury deposits at Federal Reserve banks, together with a seasonal increase in money in circulation. Excess reserves at New York City banks declined from $230,000,000 to about $40,000,000 and subsequently increased to $130,000,000.

Total loans and investments of reporting member banks increased somewhat during the four weeks ending August 18, reflecting principally an increase of $150,000,000 in commercial loans offset in part by a further decline in holdings of United States Government obligations, principally at New York City banks. The growth in commercial loans occurred both in New York City and in other cities and included the purchase by banks of a large portion of the $60,000,000 of 9-month notes sold by the Commodity Credit Corporation on August 2.

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United States Government deposits at reporting banks increased during the period, reflecting purchases by banks of Treasury bills on a book-credit basis. Bankers' balances and other demand deposits showed further declines at New York City banks.

Money rates

Rates on Treasury bills declined slightly after the middle of July, and open-market yields on Treasury notes and bonds also declined until early in August, but later there was a rise in yields. In the latter part of August discount rates were reduced from 2 percent to 1 1/2 percent at the Federal Reserve banks of Atlanta, Chicago, and Minneapolis. The 2 percent rates had been in effect since early in 1935.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Friday, August 27, 1937.

August 26, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Bank of Richmond in reducing the discount rate from 2% to $1\frac{1}{2}$%, effective August 27, 1937.

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R-61

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release. August 26, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Bank of New York in reducing the discount rate from $1\frac{1}{2}\%$ to 1%, effective August 27, 1937.

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R-62

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

August 28, 1937. DIVISION OF EXAMINATIONS

SUBJECT: Reports of Criminal Violations to The Federal Bureau of Investigation.

Dear Sir:

This refers to the Board's letter of July 16, 1937, (S-14) relating to reports of criminal violations to the Federal Bureau of Investigation.

The Board has been advised that several new field offices of the Federal Bureau of Investigation have been recently opened and there are inclosed herewith a copy of a letter from the Assistant Attorney General and a copy of a complete list of the present field offices of the Federal Bureau of Investigation. It will be appreciated if your bank will send a copy of the attached list of field offices of the Bureau to each member bank in your district in order that member banks may have an up-to-date list of such offices for use in making reports to the Federal Bureau of Investigation of bank robberies as requested in the Board's letter of March 15, 1935 (X-9147).

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

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R-62-a

MHH/vn

BM-

29-03-1

DEPARTMENT OF JUSTICE
Washington, D. C.

August 10, 1937

Board of Governors,
Federal Reserve System,
Washington, D. C.

Attention: Mr. L. P. Bethea,
Assistant Secretary.

Sirs:

Reference is made to the letters addressed to you under dates of June 18 and August 5, 1937, relative to your examiners or other officials in the field furnishing the local Offices of the Federal Bureau of Investigation a copy of each report of apparent violations of the criminal provisions of the Banking laws of the United States.

Several new Field Offices have been opened recently by the Bureau, and for your information, the Department is enclosing herewith, a photostatic copy of a complete list of the present Field Offices of the Bureau.

Respectfully,

For the Attorney General,

(Signed) Brien McMahon

BRIEN McMAHON
Assistant Attorney General.

Enc. #147801.

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Federal Reserve Bank of St. Louis

Copy

R-62-b

DIVISION	OFFICE PHONE	P. O. BOX	BUILDING
Aberdeen, South Dakota	4652		610 Alonzo Ward Hotel
Alaska, Juneau	75	2778	507 Federal Building
Atlanta, Georgia	Walnut 3698		501 Healey
Birmingham, Alabama	7-1755	314	320 Federal
Boston, Massachusetts	Liberty 8470	2344	10 Post Office Square, Room 950
Buffalo, New York	Cleveland 2030		400 United States Court House
Butte, Montana	2-4734	306	302 Federal
Charlotte, North Carolina	3-4127		914 Johnston
Chicago, Illinois	Randolph 6226	812	1900 Bankers'
Cincinnati, Ohio	Cherry 7127		1130 Enquirer
Cleveland, Ohio	Prospect 2456		1448 Standard
Dallas, Texas	2-9086		1206 Tower Petroleum
Denver, Colorado	Main 6241		722 Midland Savings
Des Moines, Iowa	3-6998		739 Insurance Exchange
Detroit, Michigan	Cadillac 2835	2118	911 Federal
El Paso, Texas	Main 501		202 United States Court House
Hartford, Conn.	7-9222		907 American Industrial
*Hawaii, Honolulu			
Huntington, West Virginia	8928		700 West Virginia
Indianapolis, Ind.	Riley 5416		506 Fletcher Trust
Kansas City, Missouri	Victor 3113		1616 Federal Reserve Bank
Knoxville, Tennessee	3-7928	2150	407 Hamilton National Bank
Little Rock, Ark.	6734	1469	500 Rector
Los Angeles, Cal.	Mutual 2201		903 Pacific Commerce
Louisville, Ky.	Jackson 5139		775 Starks
Memphis, Tenn.	8-1850		2401 Sterick
Miami, Florida	3-5558	2889	1300 Biscayne
Milwaukee, Wis.	Daly 3431		1021 Bankers'
Newark, N. J.	Market 2-5511		936 Raymond-Commerce
New Orleans, La.	Raymond 1965		1308 Masonic Temple
New York, N. Y.	Rector 2-3520		607 United States Court House, Foley Square
Oklahoma City, Oklahoma	2-8186	1276	224 Federal
Omaha, Nebraska	Atlantic 8644		629 First National Bank
Peoria, Illinois	4-5800		300 Commercial Merchants National Bank and Trust Company

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DIVISION	OFFICE PHONE	P. O. BOX	BUILDING
Philadelphia, Penna.	Locust 0880		1300 Liberty Trust
Phoenix, Arizona	3-4870		316 Security
Pittsburgh, Penna.	Grant 0800	1525	620 New Federal
Portland, Oregon	Atwater 6171	709	411 United States Court House
Puerto Rico, San Juan	1311		204 Federal
Richmond, Virginia	2-6464		601 Richmond Trust
Salt Lake City, Utah	Wasatch 1797		301 Continental Bank
San Antonio, Texas	Fannin 8052		1216 Smith-Young Tower
San Francisco, Calif.	Exbrook 2679		1105 Mills Tower
Seattle, Washington	Main 0460	1881	800 Joseph Vance
St. Louis, Missouri	Garfield 0360 (2120)**	Drawer V. Plaza Station	423 United States Court House and Custom House
St. Paul, Minnesota	Garfield 7509		404 New York
Washington, D. C.	National 5303		2266 United States Department of Justice

*Not yet opened

**Telephone number to be used for calls after 5 P.M., on Saturday afternoons and holidays.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1937.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZHAM" - Treasury Bills to be dated September 1, 1937, and to mature December 20, 1937.

"NOZHEK" - Treasury Bills to be dated September 1, 1937, and to mature June 1, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZGYZ" on page 172.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release to press today at 3:00 p.m. Eastern Standard Time.

August 30, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Bank of Dallas in reducing the discount rate from 2% to $1\frac{1}{2}$%, effective August 31, 1937.

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Federal Reserve Bank of St. Louis

R-65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release at 2 p.m. September 1, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Banks of Boston and St. Louis in reducing their respective discount rates from 2% to 1½%, effective September 2, 1937.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release. September 2, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Bank of Kansas City in reducing the discount rate from 2% to 1½%, effective September 3, 1937.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-67

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 1937.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOZHID" - Treasury Bills to be dated September 8, 1937, and to mature December 21, 1937.

"NOZHON" - Treasury Bills to be dated September 8, 1937, and to mature June 8, 1938.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZHEK" on page 172.

Very truly yours,

S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-68

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release at 4:00 p.m. September 2, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Bank of San Francisco in reducing the discount rate from 2% to 1½%, effective September 3, 1937.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release at 2:00 p. m. September 3, 1937.

The Board of Governors of the Federal Reserve System today approved the action of the directors of the Federal Reserve Bank of Philadelphia in reducing the discount rate from 2% to 1½%, effective September 4, 1937.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-70

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1937.

Dear Sir:

Referring to the Board's letter of July 26, 1935 (X-9271), with respect to the audit of the accounts of the Fiscal Agent of the Board of Governors by the auditor of the Federal Reserve Bank of Cleveland, there is transmitted herewith, for your information, a copy of the auditor's certificate in connection with his audit of the Board's accounts for the period January 1 to July 31, 1937, inclusive.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

I, F. V. Grayson, hereby certify:

(a) That a complete audit has been made of all entries in the accounts, "Board of Governors of the Federal Reserve System - Special Fund", "Board of Governors of the Federal Reserve System - Building Account", "Board of Governors of the Federal Reserve System - Fiscal Agent" and "Board of Governors of the Federal Reserve System - Fiscal Agent Building Account", for the period January 1, to July 31, 1937, inclusive.

(b) That all cash receipts received by the Board as shown by the "Collection Schedules" furnished the Fiscal Agent by the Secretary's office have been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond in the account, "Board of Governors of the Federal Reserve System - Special Fund" except several schedules totaling $272.42 which were forwarded too late to be credited in July, but were credited in August, 1937.

(c) That all remittances made direct to the Richmond bank for the account of the Board of Governors of the Federal Reserve System by the Federal reserve banks and others in compliance with the Board's instructions have been properly credited to the accounts, "Board of Governors of the Federal Reserve System - Special Fund" and "Board of Governors of the Federal Reserve System - Building Account."

(d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.

(e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board of Governors of the Federal Reserve System's accounts prepared by the Federal Reserve Bank of Richmond.

(f) That the balances in each account as shown by the books of the Fiscal Agent have been reconciled with the balances standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified by the auditor of that bank.

(g) That all "Transfers of Funds" have been properly authorized by the Secretary of the Board or a member of the Board.

Respectfully submitted,

(Signed) F. V. Grayson

Auditor

August 24, 1937

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1937.

SUBJECT: Call Reports of State Bank Members and their Affiliates.

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the seven forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of copies	Form
	Form 105, Report of condition of State bank member
	Form 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form 105e, Publisher's copy of report of condition of State bank member.
	Form 105g, Alternate Schedule E, Loans and Discounts.
	Form 220, Report of affiliate or holding company affiliate.
	Form 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

The number of copies of Forms 105b, 220, 220a, and 220b being forwarded to you is based on the requirements therefor as reported in response to the Board's telegram of August 23, 1937.

The only change made in the forms since the last call for reports is the elimination of two memorandum items at the bottom of page 4

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Federal Reserve Bank of St. Louis

of Form 105, calling for the amounts of agricultural loans and farm real estate owned, respectively. This information is called for only as of the June and December calls.

An alternative loan schedule (Form 105g) has again been provided for the use of State bank members that submit weekly condition reports, Form B-21. Please advise each weekly reporting State bank member that it may, at its option, fill out either the alternative loan schedule (Form 105g) or Schedule E appearing on page 3 of Form 105.

The same procedure should be followed as on the last call for condition reports in mailing blank forms to State bank members, examining the reports, and forwarding copies thereof to the Board.

Please have compiled from the next call reports and mailed (by air mail, if necessary, with an extra copy by ordinary mail) in time to reach the Board within 3 weeks after the date on which the call is made, if practicable, a summary statement showing separately for Central Reserve city member banks, Reserve city member banks, and Country member banks, the amount of (1) each class of loans and discounts as shown against Items 1 to 8 of Schedule E, (2) each class of United States Government obligations, direct and/or fully guaranteed, as shown against Items 1(a) to 2(c) of Schedule F, and (3) total other bonds, stocks and securities, as shown against Asset Item 4 (total of Schedule G). A separate summary statement should be furnished in accordance with Form 105g giving the classification of loans of the weekly reporting member banks that use the alternate loan schedule. The loan figures covering such banks should not be, but the investment figures should be, combined with the corresponding figures of other member banks in the district.

Very truly yours,

L P Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-72

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1937.

Dear Sir:

Letter S-28, released under date of September 2, 1937, should have shown the designation "Sec. 5136 R.S.-9" in the upper right hand corner, but the numeral "-9" was inadvertently omitted. Please, therefore, have the copies of letter S-28 received by your bank corrected to show the omitted numeral.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS TO ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

R-73

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

September 9, 1937.

SUBJECT: Code Words Covering New Issues of Treasury Notes.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Notes:

"NOWLIST" - 1-1/4% Treasury Notes, Series E-1938, to be dated September 15, 1937, and to mature December 15, 1938.

"NOWLODGE"- 2% Treasury Notes, Series B-1942, to be dated September 15, 1937, and to mature September 15, 1942.

These code words should be inserted in the Federal Reserve Telegraph Code book, on page 172.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-74

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1937.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZHUE" - Treasury Bills to be dated September 15, 1937, and to mature June 15, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZHON" on page 172.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-75

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1937.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of August, 1937.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST, 1937

Federal Reserve Bank	Number of words sent	Words sent by N. Y. chargeable to other F.R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Boston	34,977	1,511	36,488	$ 314.73	$ --	$ 314.73	$ 616.33	$ 314.73	$ 301.60
New York	125,152	--	125,152	994.67	--	994.67	2,113.97	994.67	1,119.30
Philadelphia	30,782	1,527	32,309	236.61	--	236.61	545.74	236.61	309.13
Cleveland	49,573	1,556	51,129	259.82	--	259.82	863.63	259.82	603.81
Richmond	50,544	1,505	52,049	195.70	--	195.70	879.17	195.70	683.47
Atlanta	55,125	1,472	56,597	276.07	--	276.07	955.99	276.07	679.92
Chicago	82,898	1,807	84,705	1,258.63	--	1,258.63	1,430.77	1,258.63	172.14
St. Louis	68,205	1,474	69,679	188.13	--	188.13	1,176.96	188.13	988.83
Minneapolis	28,530	1,467	29,997	135.55	--	135.55	506.69	135.55	371.14
Kansas City	62,833	1,499	64,332	259.03	--	259.03	1,086.65	259.03	827.62
Dallas	53,918	1,470	55,388	267.55	--	267.55	935.57	267.55	668.02
San Francisco	85,711	1,540	87,251	473.04	--	473.04	1,473.78	473.04	1,000.74
Board of Governors	477,804	--	477,804	1,704.24	14,092.17	15,796.41	8,070.69	15,796.41	--
Total	1,206,052	16,828	1,222,880	$6,563.77	$14,092.17	$20,655.94	$20,655.94	$20,655.94	$7,725.72

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.016891224) for business handled during the month.

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Federal Reserve Bank of St. Louis

R-76

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1937.

Subject: Holidays during October, 1937.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that on Monday, October 11, the Havana Agency of the Federal Reserve Bank of Atlanta will be closed in observance of the anniversary of the Revolution of Yara, which falls on Sunday.

On Tuesday, October 12, Columbus Day, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Inter-district Settlement Fund will be closed. The offices of the Board and the following Federal Reserve banks and branches will be open for business as usual:

Charlotte

Nashville

Detroit

St. Louis
Little Rock
Memphis

Minneapolis

Kansas City
Oklahoma City

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 17, 1937.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of August, 1937.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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R-77-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
August 2 to 31, 1937.

Federal Reserve Notes, Series 1934

	$10	$20	$50	$100	$500	$1000	$10000	Total Sheets	Amount
Boston	101,000	28,000	32,000	25,000	50	550	50	186,650	$17,918.40
New York	175,000	44,000	36,000	51,000	1,300	1,400	50	308,750	29,640.00
Philadelphia	-	41,000	26,000	11,000	-	350	-	78,350	7,521.60
Cleveland	73,000	38,000	33,000	-	300	200	-	144,500	13,872.00
Richmond	60,000	22,000	16,000	6,000	-	50	-	104,050	9,988.80
Atlanta	56,000	22,000	4,000	5,000	-	-	-	87,000	8,352.00
Chicago	95,000	50,000	-	9,000	800	-	-	154,800	14,860.80
St. Louis	54,000	21,000	5,000	5,000	-	200	-	85,200	8,179.20
Minneapolis	23,000	15,000	-	2,000	-	-	-	40,000	3,840.00
Kansas City	20,000	21,000	3,000	8,000	-	750	-	52,750	5,064.00
Dallas	15,000	5,000	-	3,000	-	-	-	23,000	2,208.00
San Francisco	-	36,000	13,000	12,000	-	150	-	61,150	5,870.40
Total	672,000	343,000	168,000	137,000	2,450	3,650	100	1,326,200	$127,315.20

1,326,200 sheets, @ $96.00 per M,............. $127,315.20

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-78

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 17, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZHYR" - Treasury Bills to be dated September 22, 1937, and to mature June 22, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZHUE" on page 172.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-79

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 1937.

SUBJECT: Proposed amendments to Regulation F relating to administration of Common Trust Funds and other matters.

Dear Sir:

There are inclosed herewith twelve copies of a tentative draft (L-501) of an amendment to the Board's Regulation F which would permit the operation of Common Trust Funds by national banks.

It is requested that the tentative draft of amendment be considered by the appropriate officers of your bank, including the counsel for the bank, and that you forward to the Board your comments and suggestions thereon at the earliest practicable date and not later than thirty days from the date of this letter.

Under the provisions of section 169 of the Revenue Act of 1936 not only national banks but <u>any</u> bank operating a Common Trust Fund in conformity with the Board's regulation applicable to national banks would be entitled to certain tax exemptions. Accordingly, it is requested that you furnish copies of the tentative draft of amendment to the State banking authorities in each of the States in your district for their information and comments and forward any comments received from the State banking authorities to the Board at the same time you forward your own comments.

It has been suggested that the provisions of subsection (b) of section 6 of Regulation F relating to a committee which may, among other things, approve the acceptance of trust accounts should be construed to the effect that such committee may be composed of officers or directors of the bank and not merely of directors. It is requested that this suggestion be considered by the appropriate officers of your bank, including the counsel for the bank, and that the Board be furnished with your comments as to whether or not subsection (b) should be amended so as clearly to provide that the committee referred to therein may be composed of capable and experienced officers as well as directors.

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Federal Reserve Bank of St. Louis

The provisions of subsection (c) of section 6 of Regulation F relating to a trust investment committee contemplate that there shall be only one such committee for each bank. It has been represented to the Board that in some instances the provisions of the regulation in this respect are impractical unless alternates may serve in place of regular members of the committee when the regular members are unable to serve on account of illness, vacations, or other duties. It has been suggested that it might be appropriate for the Board to amend the regulation by adding the following footnote to subsection (c) of section 6:

> "It is contemplated that there shall be a committee the members of which shall have a continuity of responsibility for the discharge of the duties of the committee. However, alternates appointed by the board of directors may serve in place of regular members of the committee who are unable to serve on account of vacations, illness, or other good and sufficient reasons if the service is under such circumstances that it does not destroy continuity of responsibility of the members of the committee and if, whenever an alternate serves in the place of a regular member of the committee, the minutes of the committee show the reason for such service in place of the regular member."

It may be stated that this suggested amendment would represent an extension of a previous ruling of the Board permitting service by alternates when regular members of the committee are absent from the bank and that the suggested amendment would apply not only to cases where regular members are absent from the bank but also to cases where they are present in the bank but are unable to serve.

It is requested that the appropriate officers of your bank, including the counsel for the bank, consider this suggested amendment to subsection (c) and that you forward to the Board your comments and suggestions thereon.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

R-80

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 21, 1937

Dear Sir:

There is inclosed a copy of the Board's functional expense exhibit for the first half, 1937, which has been compiled from the semi-annual functional expense reports (Form E) received from all Federal Reserve banks and branches. Additional copies of the exhibit are being forwarded to your bank under separate cover.

In our letter of March 27, 1937, the Federal Reserve banks were asked for their comments with respect to the suggestion that the functional expense exhibit prepared by the Board show approximately the same detail for each function and expense unit as is contained in the functional expense reports. While a majority of the banks indicated that the exhibit would be more helpful to them if it were prepared in greater detail, the thought was expressed that if the exhibit were prepared in exactly the same detail as the reports, the extra work might not be justified by the results obtained. For the present it has been decided to show separately in the exhibit "salaries" and certain other principal items of expense, but not all items. It is hoped that the exhibit as thus revised and expanded will prove more helpful to the banks in making comparisons than did former exhibits.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure

TO THE PRESIDENTS OF ALL F. R. BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-81

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 22, 1937.

Dear Sir:

The Board of Governors has considered the comments and suggestions made by the Federal reserve banks in response to its letter of July 30, 1937 (R-41) with respect to Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, and has adopted a revision of the Regulation to become effective October 1, 1937. Ten copies of the revised Regulation are inclosed and additional copies are being sent to you under separate cover.

A statement for the press with respect to the revised Regulation will be released by the Board for publication in the morning papers of September 27, 1937. A copy of the press statement will be telegraphed to you prior to the release date. It is requested that any statement given to the press by your bank with respect to the Regulation be released for publication at the same time.

Copies of the Regulation and press release will be sent directly to all member banks.

Very truly yours,

L P Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-82

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1937.

SUBJECT: Monthly Report of Bank and Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of August in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL F. R. BANKS

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Federal Reserve Bank of St. Louis

R-82-a

September 20, 1937.

TO The Board SUBJECT: Summary of Bank Relations Reports.

FROM Mr. Van Fossen, Division of Bank Operations.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of August and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The attitude toward the Federal Reserve System

The attitude of banks toward the Federal Reserve System continues to be cordial but there is little interest in membership by non-members for reasons that have long been familiar, but there also appears to be a tendency to await developments along legislative lines.

Banking conditions

Demand for accommodation in general appears to be light. In a number of instances mention is made of a decline in the demand for loans under the provisions of the National Housing Act, although the experience of banks with such loans seems to have been favorable. In the case of some banks that sold preferred stock or secured waivers of deposits in connection with reorganization during the depression, it is said that there is little prospect that earnings will be sufficient to eliminate such liabilities in the near future if at all. The investment problem continues to be the cause of considerable concern.

General economic conditions

Industrial activity is commonly reported as being at a higher rate than in 1936, although a seasonal falling off is now in evidence. The market for real estate appears to have improved generally, but building operations are said to be restricted because of increased labor and material costs. Crops in general appear to compare very favorably with those of recent years, but prices of some farm products show a tendency toward lower levels.

Excerpts from the reports follow: (The reports themselves are attached to the original hereof).

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Boston

Thirty-seven member banks, two nonmember banks and several branch banks, all located in the State of Maine, were visited during August.

Bankers and others interviewed reported business throughout the State generally as being good, except in the extreme northeastern section (Aroostook County) which is devoted almost entirely to the growing of potatoes. It is estimated that the potato crop will be an exceptionally large one, which must be marketed in competition with the large crops grown in other sections of the country. Early August shipments to market were bringing around $1 a barrel but it was more or less the general belief that the price for the crop would settle around 60 cents. Good crops and prices are expected in sections devoted to the growing of the so-called canning crops.

The lumber industry is said to be thriving and in the manufacturing sections various mills making shoes, paper, and textiles are all operating full time and in many cases with two and three shifts. Employment and payrolls are said to be at or above the level of a year ago.

The seasonal tourist business has been exceptionally good, particularly along the seaboard, many estimating that it has been the best the State has enjoyed in ten years, in spite of the fact that this trade continues a demand for the cheaper grades of merchandise and accommodations.

With few exceptions, loans have increased at most of the banks and their earning position is stronger than it was a year ago. Many of the smaller banks are obtaining a 6% rate on all loans. At the larger banks the regular rates are from 5½% to 6% with lower rates obtainable according to the type of loan and collateral. Bond portfolios are said to be yielding between 3% and 4%.

No criticism of the administration and policies of the System was heard at any of the banks visited - in several instances bank officials expressed the high regard in which they held membership in the System. The mechanics incident to the use of our various routine services are well understood at the member banks and the benefits derived from these services are frequently mentioned.

New York

Hunterdon County, New Jersey

The trend of deposits in the majority of cases during the past six months has been moderately upward, although two banks report decreases. One of the latter pays 1½ percent on savings deposits while its competitor in the same village pays 2 percent. The executive officer, however, does not attribute the loss of deposits to this lower rate,

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New York continued

and his opinion appears to be confirmed by the fact that deposits of the competitor bank remain practically unchanged. Savings accounts make up approximately 75 percent of the total bank deposits of all banks in the county.

Total investment in bonds is generally higher or unchanged as compared to the figures of six months ago and almost all banks have increased their holdings of United States government bonds to some extent. The latter now comprise approximately 38 percent of total portfolios of all banks in the county, as compared with 33 percent last February.

In general, the demand for accommodation continues light but three banks report a fair to good demand, and loan and discount lists in the majority of cases are increasing or at least holding their own. A rate of 6 percent generally applies, although one bank cuts this to 5 percent on loans made to its depositors, and other banks make 5 percent loans if secured by prime collateral. One bank, however, has a maximum rate of 5 percent for all borrowers.

Passaic County (northeastern part of New Jersey)

All banks in the county pay a flat rate of 2 percent on savings or thrift deposits.

Officers of some institutions visited emphasized that there has been practically a complete falling off in the demand for Federal Housing Administration mortgages during the last three months, and stated that builders having houses on hand are unable to dispose of them. It is said that this lack of demand for mortgage money is probably due to some extent to the usual summer lull in the demand for houses but more particularly to the increasing costs of materials and labor which is acting as an obstacle to new building. Bankers generally believe, however, that there will be considerable pick-up in the demand for new houses after Labor Day.

Dutchess County (New York State)

Total investment in bonds shows no material change, approximately one-half of the banks reporting larger portfolios and one-half, smaller. Holdings of United States government obligations, however, have increased quite generally throughout all of the banks of the county, and now average almost 50 percent of the total.

Demand for accommodation on the whole continues light although eight institutions report it as being fairly good or improving, and only five banks show a material decrease in loan and discount totals since the first of the year. A rate of 6 percent is generally maintained and very few banks make any exception to this except in the case of loans to municipalities or school districts.

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New York continued

Herkimer and Oneida Counties (central New York State)

Loans have continued to decline in a majority of the banks and only three report any appreciable increase during the past year. The latter institutions have obtained part of their new loans through opening personal loan departments and two have accepted substantial amounts of loans insured under the National Housing Act. In most of the banks, interest rates on loans and mortgages have been maintained at 6 percent excepting on municipal obligations.

Jefferson, Lewis, and St. Lawrence Counties (northern New York State)

On January 1 last, a state member bank reduced its rate from 2 to 1 percent, resulting in a loss of about $350,000 in time deposits. Some consideration is now being given by a commercial bank to a reduction in the interest rate paid on large balances but no definite decision has been reached.

Since 1933, many of the banks have endeavored to improve their security portfolios through purchase of United States government issues and other high grade bonds. In several banks government bonds compose nearly 50 percent of the total portfolio. In most of the small banks, however, pressure for earnings has resulted in security accounts composed chiefly of long term maturities, and, in some banks it is evident that the desire for security profits plays a too important role in their investment policies, particularly in institutions which can least afford to risk any of their principal.

Suffolk County (New York State)

Only three officers of member banks offered any criticisms of the Federal Reserve System, all referring to the fact that our safekeeping department will not handle their escrow accounts established for the county and local municipalities. They point out that their correspondent banks are complaining because of the unsatisfactory balances maintained, and they think the Federal Reserve bank, which now holds most of their cash funds, should offer every service rendered by correspondent banks including the handling of escrow accounts of this type.

Philadelphia

Industrial activities reflect little more than the seasonal decline and there has not been any great amount of labor trouble. There have been some strikes but in most instances they have not been in the very large industries located in this section.

The condition of the banks in general continues to improve but the investment problem is still acute. It is probably due to the low earnings obtainable through security investments that some of the banks have started

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Federal Reserve Bank of St. Louis

Philadelphia continued

to extend consumers' credit and it would appear that this type of credit will in the future assume a fairly important position in the loan portfolios of these institutions.

The real estate situation is improving but in many communities there is little opportunity to dispose of any but new properties, even though in many localities the housing supply is not sufficient to meet the demand, and rents are increasing.

Interest rates on time and savings deposits vary, with some institutions, particularly those in rural sections paying the maximum allowable rate. One bank has a maximum rate of 1 percent and among the larger institutions $1\frac{1}{2}$ percent seems to be the preferred rate on the lower balances with graduated rates for larger balances. The loaning rate varies from 5 percent on collateral loans to 6 percent on unsecured loans.

The President of a National bank, which had about 60 percent of its investment portfolio in government obligations, stated that he was changing his policy of investing as he was dissatisfied with the fact that the Government was going further and further into the "red". This same bank reduced the rate on savings accounts to 1 percent. It is this officer's contention that these accounts are for specific purposes and as the owners are not interested in yields, the funds may be withdrawn at any time. This is the only bank in the Third Federal Reserve District, to our knowledge, which pays so low a rate.

The officers of National banks in rural sections frequently comment upon the difficulty of compliance with the Comptroller's insistence upon statements in support of lines of credit exceeding $500. The President of one bank said that he gets many unfavorable reactions from customers who have loans affected by this policy. He quoted one customer whose note, he says, is safe and who is the Borough Treasurer, as having stated that he did not understand why the Comptroller left this President in charge of the bank, if he felt he could not grant a $1,500 loan to people with whose affairs he was well acquainted. This officer stated that before they will give statements many of the customers having loans of one, two or three thousand dollars will pay off the loans, often with funds borrowed elsewhere. This, he says, loses a customer for the bank and reduces its income.

Cleveland

The primary interest of bankers in this district, based on conversations with them in this bank and elsewhere, appears to be in the status of their bond accounts. Some bankers, in anticipation of higher money rates, are selling long term issues and investing in comparatively short maturities of Governments and other obligations.

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Cleveland continued

We continue to receive complaints from member banks based upon differences in regulations issued by the Board of Governors and those of other supervising agencies. This is particularly true of Regulation Q of the Board of Governors of the Federal Reserve System and Regulation IV of the Federal Deposit Insurance Corporation in so far as it relates to the payment of time deposits before maturity.

Richmond

One of the reasons most frequently advanced by the officers of small nonmember banks concerning their objections to membership is the fact that the loss of exchange derived from an exchange charge for paying their own customers' checks would be most substantial. One of our representatives reports a nonpar nonmember bank in North Carolina which, through its cashier, said that in considering membership the question of exchange was not taken into account, since this officer felt that the services offered through membership and the prestige which membership would entail would be more desirable in the long run than the revenue now derived from exchange.

One of our representatives reports that in the State of Maryland there are a number of small State banks which were subjected to drastic plans of reorganization following the moratorium in 1933. Many of these plans include a substantial waiver by depositors. Some of these plans provide further that the waiving depositors are to be reimbursed in full before dividends can be paid to the stockholders of the banks. Cases have arisen in which the trusteed assets will be insufficient to pay the waiving depositors in full. Therefore, in days when earnings are small, the process of finally paying out these waiving depositors in full is likely to be a long-drawn-out affair. The officers of one nonmember bank which is going through a process of reorganization similar to that described told our representative that, barring extraordinary losses, twenty-five years of normal operations would be required to restore the amount due the waiving depositors.

Atlanta

(Atlanta submitted only statistical information as to the number of banks visited.)

Chicago

Most of the activity in the Bank Relations Department during the month of August centered around the distribution of a booklet describing the operations of the Federal Reserve Bank of Chicago, copies of which were sent to the members of the Board of Governors of the Federal Reserve System and to each Federal Reserve bank.

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Federal Reserve Bank of St. Louis

Chicago continued

The booklet was distributed largely through our member banks. On August 4 we addressed each of the 759 member banks in the district, enclosing a copy of the booklet and stating that a specified number, ranging from 100 to 500 booklets, had been allotted to each bank for distribution to its customers; that in case the bank wished to participate in the program, the booklet would bear an imprint showing that the bank was a member of the Federal Reserve System; that if it would provide us with a list of its customers we would mail the booklets direct from this office with no cost to the member bank, and that additional copies over the original allotment could be obtained at a cost of five cents each plus cost of mailing or transportation charges. To date we have received requests from 685 banks (approximately 90% of membership) for 172,500 booklets. Of these banks, 135 ordered more than their quota.

On the whole, the response has been gratifying. Some of the banks simply indicated a wish to participate, but many others took occasion to express complimentary views on the idea, or the booklet, or both. When the booklets were mailed to the customers, the member bank was advised to that effect and a statement for newspapers was enclosed with the suggestion that it be handed to the local newspaper in the thought that it might bring some favorable comment on the bank's membership in the System. The results from this were also satisfactory.

In addition to the distribution through member banks, booklets were sent to all non-member banks, banking associations, banking departments, bank examiners, in the district, as well as to some trade and financial journals, special lists which our Statistical Department maintains, newspapers in larger cities, etc. Numerous individual requests for the booklets have been received both by letter and in person. A number of our member banks have asked for additional copies for counter distribution, stating that they have had inquiries as a result of the general distribution or of newspaper publicity. We expect to distribute from 180,000 to 200,000 copies.

St. Louis

Throughout the portion of Illinois and Missouri visited in August, conditions continue to improve as compared with the same period in 1936. Though in some sections the condition of growing corn became less satisfactory, owing to the lack of rainfall during the first twenty days of the month, the outlook for large corn yields is considered excellent. In both States the average yield from oats was above normal and there is every indication that hay, soy beans, and other roughage crops will also be satisfactory. Wheat harvest was fairly successful in the Illinois territory visited, but the crop was below normal in northwestern Missouri, where rust caused heavy damage.

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Federal Reserve Bank of St. Louis

St. Louis continued

Industrial activities show no appreciable change in the smaller communities visited as compared with last summer. With a few exceptions where temporary labor disputes prevail, industrial employment maintains approximately the same satisfactory levels which existed a year ago.

As the result of generally satisfactory employment conditions and increased purchasing power of persons engaged in agricultural pursuits, especially in Illinois, retail trade maintains the increase shown in July and indications point to a continuance of this trend.

Almost without exception the bankers visited report increased deposits resulting from sales of various farm commodities, especially wheat. This has caused renewed study to be given the perplexing problem of investments, with a trend toward securities having an early maturity, owing to the possibility of a change in money rates. Few country banks can find sufficient local outlet for their surplus funds, and the ratio of cash and exchange remains abnormally high.

The attitude of bankers toward the System was generally friendly, practically no adverse comment being made except in connection with increased reserve requirements. One bank complained that it had to sell a block of securities to meet the increase, and another said it was compelled to terminate its account with its St. Louis correspondent in order to obtain the necessary funds.

Several bankers commented on the benefits of membership, specially in connection with the use of custody and currency facilities, and the willingness of Reserve Bank officers to be of assistance. One or two remarked that they are well pleased with the arrangement by which a member bank can authorize the Reserve Bank to accept and pay for bonds delivered for its account by brokerage houses.

In connection with the petition of certain banks in western Missouri to be transferred to the Tenth Federal Reserve District, three national banks and one nonmember in that section commented on improvement in the service to and from St. Louis. Three of them stated that currency shipments are received as quickly from St. Louis as they could be from Kansas City. All indicated that no benefit can be achieved by the proposed change, in spite of the fact that they are closer to Kansas City. One made the statement that the movement is inadvisable and inopportune. On the other hand, another nonmember in the area is definitely in favor of the transfer, and will await developments before giving further consideration to membership in the System.

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Minneapolis

Most country bankers have had only a limited amount of experience with bonds. Realizing their "inexpertness", many of them subscribe to one of the recognized bond advisory services and/or the University of Minnesota's Financial and Investment Review. From the position in which some of these bankers found themselves during a recent week, during which second-grade bonds were steadily declining, it was evident that while they are quite willing to purchase recommended bonds, they are not so ready to dispose of them. One banker definitely stated that he did not believe bond services were "worth the price" to country bankers because they won't follow their advice! A nonmember banker boasted that the average yield on his bond account was 5 percent. (His chief worry at the moment was that the market price of his bonds was declining but was consoling himself with the hope that the market would rise again as soon as funds realized from the 1937 crop were deposited.) One member banker was "playing with good second-grade bonds" in order to step up his earnings. He too thought the decline in those issues was only temporary. "The collateral behind them is just as good now as when I bought them two months ago, so why should I sell them and take a loss" expresses his viewpoint. About one-third of the bankers confine their purchases to the shorter term direct and indirect government obligations and local municipal and state issues (a few of these accounts showed an appreciation); about one-third had had sufficient local loan demand to utilize most of their available funds and consequently their bond accounts were very small (U. S. Savings Bonds and a few others) but nearly one-third of the bankers were buying bonds for "profit" instead of "investment", i.e., were buying bonds that they did not expect to hold to maturity.

A few of the bankers in the larger towns, especially those in the larger institutions, had quite definite opinions regarding the Patman Bill. Generally, they did not see that the passage of the bill would make any fundamental change in the operations of the Federal Reserve banks. However, they all expressed concern regarding what might happen. The presidents of the two largest banks both said they would hate to see the present executives of the Minneapolis bank, who have had commercial banking and business experience, replaced by "idealistic bureaucrats" or by men imbued with the government's present "anti-private industry attitude", but if such changes were not made, they did not see that it would make much difference. In general, the bankers were inclined to look beyond the actual bill for its real purpose. If the ultimate objective was to convert the Federal Reserve banks into "political plum trees", they were definitely opposed to it, but if not, they saw no reason for objecting to it. None of them mentioned "stockholders rights" although one or two said they would like to "retain the last good 6 percent investment" they had.

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Minneapolis continued

Montana

The increase in reserve requirements was not a hardship at any member bank except in the wool country. At a few banks it was stated that the reserve increase came at tax paying time and before the marketing of wool so that loans were at their seasonal peak and cash reserves were low. Even these banks appeared to have suffered no serious discomfort from this action.

One nonmember banker stated that he was not interested in Federal Reserve membership because of the unsettled state of Federal banking and monetary legislation. On the other hand, he stated that a number of disturbing bills had been presented to the Montana legislature at the last session, and that if any legislation of this sort was enacted he would liquidate his bank rather than join the System or nationalize his institution.

Another nonmember banker stated that he would not join the Federal Reserve System because in 1917 his membership was solicited with the argument that by joining the System he could borrow at a low rate of interest and lend the funds at home at a high rate. He did not think that this was a sound principle for a central bank to state. While our representative feels sure that his recollection is faulty in this matter, he was very firm in his conviction.

Red River Valley and northeastern North Dakota

Interest paid on time deposits reported to be 1-1/2 percent in the larger towns and 2 to 2-1/2 percent in the smaller and more remote villages.

None of the State banks appear to be interested in membership. Many of them said they could not exist without the revenue from exchange charges on items received in cash letters. Some of the bankers deplored the excessive exchange charges being made by certain banks. A "grievance committee" of the North Dakota Bankers Association is working on the problem of excessive exchange rates with a view of establishing uniform and reasonable charges.

Demand deposits predominate and most bankers said their banks were in very liquid condition, with large cash reserves.

Kansas City

Since the raising of reserve requirements and the flurry in the government bond market last spring, the recent reductions in the rediscount rate in several reserve districts is probably attracting more attention

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Kansas City continued

among bankers than any other strictly banking question. The event is too recent and reports too fragmentary for anything more than a preliminary report, but a variety of opinion has already been expressed. For some time there has been widespread dissatisfaction with the return on earning assets and some bankers have expressed the opinion that the rate reductions are evidence of the desire of the Treasury to prolong favorable borrowing conditions.

The tendency appears to be to associate the rate reductions with the government bond market and with the Treasury's and the Reserve banks' responsibility for the price of these securities. The question is raised what the attitude would be of these same agencies in the event of a radical drop in the price of government issues. Banks are interested in the question how supervising authorities would look upon losses in government bond accounts and what base lending agencies would use in making advances on depreciated securities.

Dallas

Central Texas

Increase in reserve requirements was not a matter of concern to the member banks visited, since they had adequate available cash to meet the increased requirements without borrowing or in any manner hampering their operations.

There is no noticeable increase in demand for credit at any of the banks visited and no prospect for need of our rediscount facilities. The principal complaint was lack of demand for credit. The one nonmember visited was of the opinion membership would not be of any value and that too many regulations and restrictions are imposed upon state members.

Banking, business and agricultural conditions are favorable, with prospects for cotton production better than for several years.

San Francisco

Yakima Valley, Washington

The Yakima Valley is looking forward to low prices for apples and hops. The prospective apple crop in the United States is so much larger than last year's that there appears to be no possibility of prices as high as were received for the 1936 crop. The hop prospects are so poor that bankers are making no loans to pick hops unless the borrower has ample other assets from which he can pay.

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San Francisco continued

The price for lambs and cattle continues to be good and, due to the demand for dairy stock from California, it appears that dairy cows will move at pretty good prices all winter.

The diversity of production in the Yakima Valley is such that the banks expect business conditions to continue on about the present base even though some of the crops will not be sold at a profit.

Eastern Washington

The wheat yield per acre is much larger than normal as the season has been very favorable for wheat growing in this particular section of the Big Bend near Spokane. While the total bushels for the district may not be much more than last year, bankers are pleased with the acreage production. The only wheat moving is that which was contracted for early in the season. The price having dropped, the farmers who had not contracted their wheat are holding. Bankers look for more loans on warehouse tickets this year than for several years past.

The Palouse wheat crop is thought by most bankers to be a very good one and the early season estimate by the County Agent of 12 million bushels is still expected. Harvesting will be very late this year and, in the higher sections, may run beyond the middle of September. There is some indication of rust in wheat which is being cut now, which, if it persists throughout the later cutting, will materially affect the growers' crops.

Peas have been a very good crop this year, but the price, while nominally 1-1/2 cents a pound, is usually 1 or 1-1/4 cents if anyone is forced to sell. The peas contracted for early were 1-1/2 and 1-3/4 cents. There are some other peas moving, but the larger bulk of the peas sold thus far have been the contracted crops.

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PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

AUGUST, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	37	2	39	None	--	None	--
New York	124	46	170	None	--	None	--
Philadelphia	73	16	89	1	*	None	--
Cleveland			12**	None	--	1	40
Richmond	25	75	100	None	--	None	--
Atlanta	8	3	11	None	--	None	--
Chicago	18	20	38	None	--	None	--
St. Louis	37	7	44	None	--	None	--
Minneapolis	8	11	19	1	100	None	--
Kansas City	16	9	25	2	80*	None	--
Dallas	3	1	4	None	--	None	--
San Francisco	29	10	39	4	152	None	--

* Attendance at 1 not reported
** Courtesy calls

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R-83

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers of Monday, September 27, 1937.

September 25, 1937.

The Board of Governors of the Federal Reserve System has issued, effective October 1, 1937, a general revision of Regulation A, governing discounts and advances for member banks by Federal Reserve banks. The revision formally incorporates into the Board's regulation various legislative provisions enacted by Congress since the previous revision was issued in 1930.

Revision of Regulation A has been considered by the Board since the passage of the Banking Act of 1935 which liberalized and made permanent the emergency provisions of the law permitting advances to member banks on any sound assets. Under these provisions of the law, Federal Reserve banks are given authority to make advances upon any sound assets of member banks for the purpose of enabling them to meet seasonal or other requirements of commerce, industry and agriculture which are consistent with the

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maintenance of sound credit conditions.

The issuance of the revised regulation at this time is an appropriate sequence of the System's recent reduction of discount rates. The Regulation further implements the System's policy of monetary ease by liberalizing and consolidating the rules and methods affecting the lending function of the Federal Reserve System.

In a preface to the regulation, the Board states that the guiding principle underlying the discount policy of the Federal Reserve banks is the advancement of the public interest and recognizes that the lending function of the Federal Reserve banks is not automatic but is an instrumentality of the System's general credit policy.

The regulation makes few changes in the technical rules for eligibility which have prevailed since the System was established. It does, however, make eligible for discount a large amount of paper of commission merchants and finance companies, including paper drawn to finance installment sales of a commercial character.

The regulation lists specifically the following classes of assets which may be accepted as collateral for advances by Federal Reserve banks: Securities defined by the Comptroller of the Currency as eligible for investment by national banks, loans on stocks made in compliance with

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the Board's Regulation U, mortgages and loans insured under Titles I or II of the National Housing Act, debentures and bonds issued by Federal Home Loan banks or under authority of the Federal Farm Loan Act, bills, notes, and revenue bonds and warrants issued by States or other political subdivisions, obligations issued or drawn for the purpose of financing real estate, and obligations issued for the purpose of financing the sale of goods on an installment basis.

In addition to the specified classes of assets, the regulation provides further that, when in the judgment of a Federal Reserve bank circumstances make it advisable to do so, the banks may accept as security for an advance any assets satisfactory to the Federal Reserve bank. The regulation, therefore, bars no class of paper from use as collateral for advances but merely indicates a preferred list of paper which covers all the principal fields of financing.

In order to encourage member banks to have their real estate loans and installment paper acceptable as a basis for advances at the Reserve banks, the Board in an appendix to the regulation recommends certain minimum standards for observance in making such loans. In establishing rules which in effect make all sound assets of member banks eligible as a basis for advances by the Federal Reserve banks the Board had in mind the fact recognized by Congress in the Banking Act of 1935, that under our banking system member banks carry time

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deposits as well as demand deposits, and since these banks are custodians of the funds representing the savings or capital accumulation of the people, they properly invest a part of their funds in long-time paper. Consequently, provision should be made whereby such paper may be used in case of need as a basis for advances from the Federal Reserve banks.

The principles underlying the new regulation are the same as those underlying recent modification of the Federal Reserve Act. Experience has demonstrated that the solvency of banks is better safeguarded by careful regard to the quality of the paper which they acquire than by strict observance of the form that this paper takes, and that greater emphasis on soundness and less emphasis on form is a sound banking principle. The Board was also guided in its determination of eligibility requirements by the recognition of the fact that at a time of a deflationary development it is important for the Federal Reserve System to lend with the greatest freedom consistent with safety. At such times technical limitations on the character of eligible paper endanger rather than protect the safety of the banking structure.

By describing in the regulation the character of paper that will have first claim for advances the Board hopes to encourage better and safer banking practices. At the same time the Board believes that the assurance of support in case of need given to member banks whose lending and investment practices comply with the minimum standards laid down by the Board will encourage the banks to give their communities the financial services that they require.

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R-84

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, September 28, 1937.

The following summary of general business and financial conditions in the United States, based upon statistics for August and the first three weeks of September, will appear in the October issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

In August industrial activity advanced from the level of the two preceding months and on a seasonally adjusted basis was close to the volume of last spring. Early reports for September indicate a decline in steel output and a seasonal decrease in the production of automobiles.

Production and employment

Volume of industrial production, as measured by the Board's seasonally adjusted index, was 117 percent of the 1923-1925 average in August as compared with a level of 114 percent in June and July and 118 percent during the spring. Steel production rose slightly further and was close to the high level prevailing before strikes curtailed output in June. Automobile production was maintained in considerably larger volume than is usual in the month preceding the shift to new model production. Lumber output declined, following a period of increase. In the nondurable goods industries output increased in August, reflecting

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chiefly increases at cotton and woolen textile mills, following considerable declines in the preceding month. Activity at meat packing establishments increased somewhat from an extremely low level. Shoe production showed less than the usual seasonal rise. At mines, output of coal increased less than seasonally, while crude petroleum production continued to expand.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined somewhat in August and the first half of September. Awards for private residential building showed little change and were in about the same volume as in the corresponding period of 1936, while publicly-financed residential building declined and was in considerably smaller volume than last year.

Factory employment, which had increased in July, showed less than a seasonal rise in August. Factory payrolls increased by about the usual seasonal amount. The number employed at steel mills increased somewhat further, while at automobile factories, railroad repair shops, and sawmills employment declined. In the textile industries employment in the production of fabrics decreased somewhat, while employment in the production of wearing apparel increased. Changes in employment in most other manufacturing industries were small.

Agriculture

Department of Agriculture crop estimates based on September 1 conditions were about the same as the estimates a month earlier, except for an increase in cotton and a decrease in corn. Output of leading crops is substantially larger than last season. Supplies of livestock and meats are expected by the Department of Agriculture to continue smaller than last year.

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Distribution

Mail order sales and sales at department stores showed somewhat less than the usual seasonal increase from July to August. Freight-car loadings continued at the level of the previous month.

Commodity prices

Cotton prices declined considerably further from the middle of August to the third week of September and there were smaller decreases in cotton goods, silk, hides, steel scrap, copper scrap, and lumber. Prices of livestock and livestock products, after some decline in the latter part of August and the first week of September, advanced sharply in the middle of September.

Bank credit

Excess reserves of member banks increased in the five-week period ending September 22 from $800,000,000 to $1,000,000,000 as the result of a release of gold by the Treasury from its inactive account. The bulk of the increase in excess reserves went to New York City banks and on September 22 these banks had excess reserves of $350,000,000, Chicago banks had $50,000,000, and banks elsewhere $600,000,000.

Commercial loans at reporting member banks in 101 leading cities, reflecting in part seasonal demands, continued to increase substantially during the four weeks ending September 15, both in New York City and outside. Holdings of United States Government obligations and of other securities showed a further decrease, with the result that total loans and investments declined somewhat.

Money rates

Rates on 9-month Treasury bills declined from 0.71 percent early in September to 0.44 percent later in the month, and average yields on long-term Treasury notes declined from about 1 5/8 percent to below 1 1/2 percent.

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R-85

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZIAN" - Treasury Bills to be dated September 29, 1937, and to mature June 29, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZHYR" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-86

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 2, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZIRE" - Treasury Bills to be dated October 6, 1937, and to mature July 6, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZIAN" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-87
October 5, 1937

Dear Sir:

Referring to the Board's letter B-1186 of January 5, 1937, following is a statement of changes during September in the list of nonmember banks that have filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Delete the "Stoneham Trust Company", Stoneham, Massachusetts, from page 2 of the list and add it to page 5 under the heading relating to banks no longer in operation as nonmember banks with the following note:

"(Merged into Middlesex County National Bank of Everett, Everett, Massachusetts, as of September 13, 1937.)"

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

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R-88

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 6, 1937.

SUBJECT: Change in Interdistrict
Time Schedule.

Dear Sir:

Upon request of the Federal Reserve Bank of St. Louis the Board of Governors of the Federal Reserve System has approved the following change in the Interdistrict Time Schedule for cash items:

	From	To
St. Louis to Nashville	2 days	1 day

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-89

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1937.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZIST" - Treasury Bills to be dated
October 13, 1937, and to
mature July 13, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZIRE" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 12, 1937.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of September, 1937.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 1937.

Federal Reserve Bank	Number of words sent	Words sent by N. Y. chargeable to other F.R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Boston	36,364	1,237	37,601	$ 251.78	$ --	$ 251.78	$ 624.17	$ 251.78	$ 372.39
New York	138,862	--	138,862	994.67	--	994.67	2,305.09	994.67	1,310.42
Philadelphia	29,278	1,251	30,529	236.61	--	236.61	506.78	236.61	270.17
Cleveland	52,084	1,277	53,361	261.93	--	261.93	885.78	261.93	623.85
Richmond	54,299	1,223	55,522	194.11	--	194.11	921.66	194.11	727.55
Atlanta	56,138	1,212	57,350	276.07	--	276.07	952.00	276.07	675.93
Chicago	85,902	1,576	87,478	1,156.07	--	1,156.07	1,452.12	1,156.07	296.05
St. Louis	67,803	1,254	69,057	188.13	--	188.13	1,146.34	188.13	958.21
Minneapolis	29,086	1,206	30,292	135.55	--	135.55	502.84	135.55	367.29
Kansas City	66,224	1,336	67,560	259.03	--	259.03	1,121.49	259.03	862.46
Dallas	56,821	1,212	58,033	267.75	--	267.75	963.34	267.75	695.59
San Francisco	90,814	1,201	92,015	473.04	--	473.04	1,527.44	473.04	1,054.40
Board of Governors	444,822	--	444,822	1,704.24	13,894.06	15,598.30	7,383.99	15,598.30	--
Total	1,208,497	13,985	1,222,482	6,398.98	13,894.06	20,293.04	20,293.04	20,293.04	8,214.31

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.016599868) for business handled during the month.

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R-91

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1937.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZJAB" - Treasury Bills to be dated
October 20, 1937, and to
mature July 20, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZIST" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-92

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1937.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of September, 1937.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
September 1 to 30, 1937.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	20,000	125,000	$ 12,000.00
New York	125,000	25,000	150,000	14,400.00
Philadelphia	90,000	25,000	115,000	11,040.00
Cleveland	100,000	25,000	125,000	12,000.00
Richmond	45,000	25,000	70,000	6,720.00
Atlanta	45,000	25,000	70,000	6,720.00
Chicago	100,000	50,000	150,000	14,400.00
St. Louis	40,000	-	40,000	3,840.00
Minneapolis	30,000	25,000	55,000	5,280.00
Kansas City	35,000	-	35,000	3,360.00
Dallas	90,000	50,000	140,000	13,440.00
San Francisco	75,000	40,000	115,000	11,040.00
	880,000	310,000	1,190,000	$114,240.00

1,190,000 sheets @ $96.00 per M,........ $114,240.00

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-93

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1937.

SUBJECT: Monthly Report of Bank and
Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of September in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

October 15, 1937.

TO The Board SUBJECT: Summary of Bank Relations Reports.

FROM Mr. Hammond, Division of Bank Operations

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of September and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The attitude toward the Federal Reserve System

Among western bankers there continue to be frequent complaints about the higher reserve requirements now in effect, on the ground that they make it necessary - or may make it necessary - for member banks either to borrow or to sell investment securities. Also in the west and in the south the necessity of charging exchange is a barrier to membership. At the same time bankers appear conscious of a strong and possibly increasing resistance from the public to exchange charges. The opposition of bankers to the McAdoo and Patman bills is frequently expressed, both personally and in resolutions.

Banking conditions

New York, Philadelphia, and Richmond comment upon the fact that numerous banks are making no progress toward retirement of their preferred stock or other contingent liabilities resulting from reorganization.

Cleveland reports that the Ohio banking authorities are about to issue regulations, analogous to the Board's Regulation U, governing the margin to be required on collateral loans.

General economic conditions

In the east, summer travel and industrial activity have made business good in many places, and in others - particularly in the coal regions of Pennsylvania - conditions have continued to be discouraging. In the west, the early promise of an exceptionally good farming year was in many places frustrated by drouth, heat, and grasshoppers, though in general crops were abundant, and live stock is in good condition but scarce. In the south, conditions appear generally favorable, except for the fall in the price of cotton.

Excerpts from the reports follow: (The reports themselves are attached to the original hereof.)

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Boston

Throughout the several sections of the district visited during the period of this report bankers and others interviewed referred to general business conditions in their respective communities as being good. In those sections catering principally to the summer tourist and resident trade this season's business has been the best experienced in several years. This is notably true in northwestern Connecticut where there has been a constantly increasing demand for residential country and village property, the demand coming largely from New York. It is reported that this demand is gradually extending into the state, having been particularly noticeable this past spring and summer.

In the various manufacturing towns, mills and factories are operating most departments full time with employment and payrolls at or above the levels of a year ago. No indications of probable labor disturbances are apparent at the present time, according to those interviewed. In some of these towns there is a marked shortage of housing facilities, with little or no residential building underway or in contemplation.

Lending rates at the banks range from six per cent downward - well collateraled loans are readily made at from four to five per cent, with lower rates obtainable according to the size of the loan and character of collateral. Mortgages are made at five and five and one-half percent.

Only a few banks in the larger cities reported any marked increase in the demand for loans at this season over the demand of a year ago, though on the whole the portfolios of the banks visited are somewhat larger. A good many of the banks in the manufacturing towns, particularly in Connecticut, are operating small loan departments and individual banks report this business to have grown substantially over the past year. The interest of banks located in non-payroll towns is being attracted to this operation, and the nature of the inquiries made at some of these banks would seem to indicate that they are giving consideration to the advisability of setting up personal loan departments.

The present reserve requirement was the only matter complained of at any of the banks visited, and at only two or three of the smaller banks was the subject referred to. Routine operations between the Federal Reserve Bank of Boston and the member banks visited are being conducted in a manner satisfactory to the latter and no suggestions were offered as to how our various services might be improved.

New York

Monmouth County, New Jersey

Banks located in summer resort sections along the coast had a considerable increase in deposits as a result of the good summer season but

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Federal Reserve Bank of St. Louis

New York continued

many were unable to use these temporary funds to any great advantage and consequently held them as idle cash. A few banks, however, employed some of their funds in such short term investments as commercial paper purchased in the open market, bonds called for payment during the fall months, and United States Treasury bills and notes. The officer of one member bank remarked that he had purchased $200,000 commercial paper having six months' maturity and yielding 1 per cent, and commented that if his summer money is withdrawn faster than he anticipates, he will probably obtain funds through rediscounting as much of this paper as necessary at the Federal Reserve bank, taking advantage of the recent reduction in the discount rate to 1 per cent.

Several bankers mentioned that income obtained from service charges is a material help to earnings, some giving varying amounts ranging from 10 to 20 per cent of net earnings as being derived from this source.

Delaware and Sullivan Counties, New York

Ten of the twenty-four banks in these counties report a small appreciation remaining in their bond portfolios. Officers of a few other institutions were non-committal, while nine definitely stated that the market value of their securities was now less than book. Practically all bankers introduced the subject of the recent decline in the stock and bond markets and expressed considerable apprehension and discouragement as to the future trend. United States government obligations, direct or fully guaranteed, compose approximately 42 per cent of the securities held by the banks in this territory.

Only three banks reported any material increase in their loan portfolios, and a number of executives remarked upon the difficulty in adding to their loan lists in view of the constant pressure being exerted by examiners for substantial reduction in some of the existing loans.

A number of bank officers discussed the activities of the Production Credit Association. For the most part, they feel that this agency is not competitive because of the high rate charged, the stock ownership feature, and the greater risk involved. One, however, voiced a very emphatic protest and stated that in his territory the Production Credit Association has been making many loans which should be made by the banks.

The subject of reserve requirements was nowhere mentioned and it would appear that none of these institutions are suffering any real hardship as a result of the increases. Several banks, however, have found it necessary to borrow during recent months, this borrowing being due in most cases to seasonal requirements or to the withdrawal of public funds.

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New York continued

Nassau County, New York

Forty-three of the commercial banks in this county have issued preferred stock, capital notes, or debentures, the total amount being $6,887,000. One bank has retired its entire issue of $75,000 and twenty-five have paid off an aggregate of $648,780 of the original amount. One state member bank has completed plans to retire its capital notes by sale of preferred stock and two nonmember state banks are working on recapitalization plans whereby their debentures are to be converted into preferred stock. Of the seventeen institutions which have not retired any of their capital issues, twelve have an impairment in their common capital as a result of previous chargeoffs. One national bank which has its deposits insured 100 per cent by the Federal Deposit Insurance Corporation has been unable to sell preferred stock to the Reconstruction Finance Corporation and expects to work out of its difficulties by merging with a nearby institution.

Ten of the eleven banks which have established pay-as-you-go checking accounts in their communities report that the venture into this field is proving profitable from an income-producing standpoint, and has resulted in the opening of an aggregate of over 3,000 new accounts.

Onondaga County, New York

At the present time there appears to be little likelihood of any immediate extension of branch banking within the county although the management of one small independent bank is seeking a purchaser who will continue its operation as a branch.

Philadelphia

The banks visited generally show an improvement in condition during the past year. There was a rather general complaint as to low earnings but most of the institutions have been able to add to their undivided profits accounts during the year. This was due in many instances to profit taking in the investment account, but there were very few institutions whose operating incomes were not sufficient to pay their expenses and dividends. The cashier of one bank, however, advised our representative that the president, who is the dominant factor in its management, had discussed with the board on several occasions the desirability of liquidating the institution if it could not make a better profit. This particular institution is one of the strongest small banks in our district and could pay its depositors in full and retire its capital stock from the funds which could be realized from the sale of its investment securities and from cash on deposit with other banks.

The two outstanding factors from an industrial standpoint are the recent slackening of activities at the Bethlehem Steel Company and the

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Philadelphia continued

inactivity of many of the coal mines. While most of the banks visited continue to pay the maximum allowable rate of interest on deposits, it was found that many of them are giving consideration to reducing the rate to at least 2 per cent. On the other hand, instances were found where banks had reduced the rate to 1-1/2 per cent without regard to whether or not competing banks in the same town would adopt a similar rate. In one city a graduated scale is paid with $10,000 being fixed as the maximum amount on which interest will be paid.

In another city the bankers report that they are discouraging savings accounts other than those of small amounts and suggesting the depositing of larger amounts in the postal savings system.

At two institutions it was reported that increased reserve requirements were interfering with earnings of the banks. At one of these our representative was advised that due to the good demand for credit which this institution had been experiencing the increase in reserve requirements resulted in the inability of this bank to meet all of the demands made upon it without resorting to the use of borrowed money.

Cleveland

Member bank interest is centered at the present time largely in the status of investment accounts. Many bankers feel that their present holdings of Governments are ample, and in some instances there is a tendency to shift from long-term to short-term Federal issues. In some sections, notably in the rural districts of Kentucky, banks are indicating a desire to increase holdings of Governments "for purposes of safety". There is a great deal of uneasiness evidenced concerning bond prices, and while the thought is expressed that the action of the Reserve banks in lowering discount rates may prove effective in checking the decline in the price of Governments there appears to be a lack of confidence that the action taken will produce the desired result. A prominent Ohio banker attributes fluctuations in the bond market to nervousness among bankers as a result of recent changes in banking laws and regulations and the possible effects thereof.

In the industrial sections covered by representatives of this bank during the month there was noted a lack of the usual demand for seasonal extensions of credit. Several banks expressed the thought that the practice of mercantile and manufacturing seasonal borrowing was becoming a thing of the past. The reverse of this situation is true in the State of Kentucky, where a strong seasonal demand has developed.

Criticism was heard of regulations recently issued by the Superintendent of Banks of the State of Ohio, with the approval of the banking advisory board, prescribing marginal requirements on collateral loans.

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Cleveland continued

These regulations were much more restrictive than Regulation U. They provide maximum loan values of 50 per centum on "listed" obligations, "unless well diversified", in which event a loan value of 70 per centum was authorized. In respect of "unlisted" obligations, the maximum loan value was fixed at 30 per centum, except that when "well diversified" loan values should not exceed 50 per centum of market value. All other collateral, including stocks, and commodities, etc., had a maximum loan value of 30 per centum of market or estimated value. These loan values applied without reference to the purpose for which the proceeds of the loan were to be used. The effective date of the regulation was later suspended and the regulation is now in process of revision. An examination of a rough draft of the proposed new regulation indicates that if it be acceptable to the State Superintendent and the banking advisory board, it will be reissued in a form rather closely conforming to the provisions of Regulation U.

Richmond

Our representative in the State of Maryland again calls attention to the small nonmember banks in his territory, many of which were reorganized after the banking holiday on more-or-less drastic terms. Many of these banks have found the possibility remote of improving or overcoming the condition leading to their reorganization. Lack of earnings and a feeling that they have been discredited in the eyes of the community aggravates the situation.

Certain member banks show an inclination to criticize their membership in the System. One national bank in North Carolina complained of the cost of membership occasioned by the loss of exchange revenue. This bank is surrounded by a group of nonpar nonmember banks in nearby towns. Another national bank in North Carolina was critical of the increase in reserve requirements and wondered why it was thought necessary to increase the requirements the full amount permitted by the Act. Its attitude seemed to be that this action reduced the ability of member banks to invest profitably and at the same time increased the purchasing power in the hands of the Reserve banks. This bank also complained of the policy which, as they expressed it, "makes it practically impossible for small country banks to participate in the short-term financial operations of the Government, thus forcing them to invest in longer-term obligations at a greater risk." Still another national bank in North Carolina told our representative that the Federal Reserve Bank has lost its function of being a bankers' bank and is now merely a Governmental bureau to facilitate Government financing. Further, in its opinion, there are too many overlapping agencies and supervision of all banks should be centered in one authority. This last bank quoted is a substantial institution which has an excellent local reputation.

One large nonmember bank, in discussing the question of membership, was quite critical of recent trends in the financial world as related to

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Federal Reserve Bank of St. Louis

Richmond continued

our country and expressed his belief that efforts are being made to bring about a centralization of all essential activities - steps which he believes will destroy private initiative and enterprise.

Generally speaking, the banks in the larger cities in our district feel that the reduction in discount rates was a mistake. They tell us that banks already possessed sufficient excess funds to meet any reasonable and legitimate need this fall, and that once a rate is reduced for a borrower the rate for the other borrowers in the same class must almost inevitably be reduced likewise. There is some keen competition between large banks in larger cities in our district for the loan accounts of well established potential borrowers and this competition is manifested in a competition of low rates. In the medium-size cities and larger towns this rate competition is not so clearly manifested. In the banks in smaller towns and small communities the reduction in rates apparently gives them no concern whatever as far as they are affected, for they charge their local customers the maximum rate allowed anyhow, which is usually 6 per cent.

Atlanta

Georgia

It is the consensus of opinion of the bankers interviewed in northern Georgia that the farmers will elect to sell their cotton rather than obtain funds through the Governmental loan provision inasmuch as they are reluctant to participate in an agreement to curtail production which has not as yet been definitely formulated. It is our information that the farmers in this section are enjoying better living conditions than for a number of years.

In Savannah the banks reported increased demands for legitimate commercial loans.

Louisiana

The saw mills in the section near Alexandria are operating on full time and it is estimated they have a supply of virgin timber that will furnish approximately 15 years' cut. The management of the two banks in Alexandria advised that local conditions are considered good even in the face of some concern on the part of the farmers because of the recent decline in the price of cotton. It was stated that had the price of cotton remained at 12 cents or better this particular section would have enjoyed a revival of business conditions greater than for several years past.

The bankers in Lake Charles advised that the rice growers are exceptionally well pleased with the yield per acre but that some concern is felt, due to the price being approximately 25 per cent less than that expected. In this immediate section there is quite a bit of optimism over the number of oil wells that are being brought in.

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Federal Reserve Bank of St. Louis

Atlanta continued

The New Orleans bankers reported a revival of trade with South American Countries, and also considerable interest in oil developments in southern Louisiana. It is predicted by some that New Orleans may within the next few years become one of the larger oil centers of the United States.

General

The majority of the bankers are of the opinion that Governmental loan agencies have been a distinct benefit to their local communities. One banker expressed the opinion that the Production Credit Association had done more in his immediate section to teach farmers to respect their obligations and better methods of cultivating their crops than he had been able to do in all of his banking experience.

Some of the bankers visited appeared disturbed about reserve requirements having been increased to the maximum provided under the Federal Reserve Act. They state that it is no burden to them now to maintain their reserves but they are wondering whether, when the time comes when they can employ the maximum amount of loanable funds profitably, the reserve requirements will be lowered in order that they can use their own funds in making loans rather than be forced to borrow while maintaining maximum reserve requirements.

Chicago

A number of calls were made on nonmember banks by our representatives when they happened to be in adjacent territory and some nonmember banks were interviewed at group meetings. A majority of them expressed some interest in membership and in our services. A few we consider good immediate prospects. One bank would make application for membership except for its low capital deposit ratio; another wishes to join but prefers to convert into a National bank; one has already applied, and another stated that its directors had agreed to file application and asked us to forward blanks. One bank stated that it would like membership, but that it is preparing to open a branch in a small nearby village, which of course would preclude its joining the System.

One of our representatives reported that at a group meeting in Michigan, the Banking Commissioner of that State stressed the idea of eliminating many small State banks located in the smaller towns, and the establishment of branches. Several bankers also informed our representative that an attempt was being made to convert many of the small banks into branches and that the Federal Deposit Insurance Corporation was sanctioning such a plan. A similar policy has already been reported in connection with one of the other States in this district.

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Chicago continued

Very little change is reported by our member banks with respect to local loans. One of the larger banks in the district advises that it has covered a rather large territory seeking receivers' loans and has obtained a considerable number of these.

St. Louis

Cutting of corn is proceeding rapidly and both Illinois and Missouri will enjoy a very satisfactory harvest. All forage crops are exceedingly plentiful, and because of a shortage of feeding cattle, a good many bankers are advising customers to store corn and await results of the 1938 harvest before disposing of any surplus grain. Energetic efforts to secure live stock continue to be made.

The Delta is raising one of the biggest cotton crops on record, and Mexican labor is being imported from Southern Texas to help in the picking. However, the price, even with the premium for length of staple, is disappointing. The low price for cotton seed (from $18 to $22 per ton) does not pay picking and ginning charges. On the other hand, the large crop will put a lot of money into circulation, which will help retail trade and increase revenue of the gins and railroads.

The opinion was expressed that not more than 1/3 of the cotton crop will be placed in this year's 9 cent Commodity Credit Corporation loan, one reason for lack of interest being that the cotton is being sold as it is ginned. Also, the present price is from 1 to 1-1/2 cents above the 9 cent limit. If the price breaks, a good many planters will take advantage of the CCC loan, but they do not like to sign the blanket contract to agree to any acreage reduction scheme the Government may put in next year, which they must do in order to get the subsidy.

Throughout Illinois and Missouri production and employment in manufacturing plants continue at a good level. Some improvement is noted in coal mining in view of the agreement reached by operators and the miners' union, which has caused a resumption of work in a number of cases and paved the way for a full production schedule about October 1.

The discovery of oil in various parts of Illinois is of considerable financial benefit to a number of communities. Considerably more than a hundred wells have been drilled at an average cost of over $10,000 per unit, with no indication of lessening of activity.

With the assurance of adequate harvests of forage crops, country banks in Illinois and Missouri are experiencing an increased demand for loans, particularly by persons who contemplate an increase in their live stock feeding operations. Most banks are eager to find an outlet for surplus funds, but are carefully analyzing the applications. As

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Federal Reserve Bank of St. Louis

St. Louis continued

the general uptrend in local loans will result in added earnings, the prospect is gratifying to all concerned.

The bankers visited in the South criticise the Administration more freely than a year ago. They are uneasy about the possibility of inflation, the effect of the Patman Bill on the System, and the huge deficit in the national budget. One nonmember bank is getting rid of its long-term Governments and now holds only maturities between now and 1941. The opinion was expressed that deposits will not go as high as they did a year ago, that planters will be able to pay their loans, but that there will not be enough left over to pay interest on mortgages or taxes or to leave a reserve for next year's operations.

Minneapolis

Northwestern Wisconsin

It is encouraging to learn from many of the bankers visited that there is a marked increase for local loans and it appears there is considerable liquidation of their securities portfolio. Many of the live stock loans formerly held by the Regional Agricultural Credit Corporation and also the Production Credit Associations have been taken over by the local institutions. They stated that the Regional Agricultural Credit Corporation had taught the borrowing public the necessity for not only the borrower but the lender as well placing his loan on an amortized basis. In the case of the dairy farmer, assignments of his dairy income are received by the bank so that there are weekly or monthly reductions of his indebtedness to the bank.

East central Dakotas

It is generally commented that up to June 25, and later in some sections, prospects for good crops were never better. There had been intermittent rains through the early summer and the temperature not too hot. With cessation of rain the subsoil moisture was insufficient to withstand the hot winds. Cut worms were bad and, in addition to damaging the small grain, also went after the corn. The rust came very suddenly and what was left furnished food for the grasshoppers.

The farmers are much slower in being convinced of the desirability of sticking to cattle, horses, hogs and sheep, than the bankers. Many bank officers state that during the war period farmers were told they would be unpatriotic if they did not grow wheat. The light soil turned at that time has not been of much use since. Through urging of bankers, many farms now have small flocks of sheep. One banker said his bank could not have carried on but for the profits made from sheep raising in his vicinity. The hog population is about 30 per cent of normal, but can be brought back more rapidly than other kinds of live stock.

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Federal Reserve Bank of St. Louis

Minneapolis continued

Banks are not lending readily for the purchase of better grade feeders, because of the shortage of grain feed. They are encouraging the purchase of cheaper cattle at 5 and 6 cents, feeling that the chance of loss is smaller than in the better grades.

Service Float and Exchange Charges are in effect and in the state banks visited it was quite apparent most of them could not exist without substantial profits from exchange. Several of the national banks said that if conditions did not improve, they would have to seriously consider giving up the national charter. As a matter of fact, they have considered taking out state charters but are afraid of the state administration. They are giving up $2,500 to $6,000 in exchange by remaining members.

The following petition (quoted in part) was addressed to Governor Langer by citizens of McIntosh County, North Dakota. Another petition was being prepared for presentation to the Farm Credit Administration and the Federal Land Bank requesting that nothing be done for another year to deprive the farmers of their land. Several bankers said that the Federal Land Bank would own plenty of North Dakota before long and that they might better put some live stock on the farms and help the farmer than take the land and suffer big losses in disposing of it.

> "Whereas an economic crisis is now confronting the people of our State in that a large number of farmers and their families from our area are now moving out of our State, turning their chattels over to their creditors and leaving nothing but their unpaid real estate taxes for the remaining ones to make good, and
>
> "Whereas, It is impossible for the remaining ones to assume this extra burden and pay taxes when those now levied are confiscatory, and consequently, others must soon follow those already departed and leave their homes in this State, and that when this occurs, the mechanic, carpenter, mason, blacksmith, doctor, lawyer, teacher, preacher, banker, and politician must also move on leaving an unoccupied domain to be again inhabited by the gophers and coyotes. A million acres already forfeited to the State prove that this is no exaggeration.
>
> "That a moratorium on state interest payments would allow the use for running expense of half of our now three million dollar income from sales tax, and that the other half could then be used to take care of old age pensions and other incidentals. That sufficient additional revenue could be derived from all our different license taxes such as snuff, cigarette, soft drink, beer and booze taxes, most of them recently added to the tax burden.

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Minneapolis continued

"That as an inducement to all farmers now so sorely pressed and through no fault of their own, all delinquent and due taxes now of record against their property should be stricken off and cancelled in total and that an assurance that these cancelled taxes will not be added to the burden of those who can pay or to those to be paid in the future, and a fair and just tax measure based on the one proposed at our last legislature whereby the total tax to be levied on real estate would be limited to 10% of its fair rental value.

"Be It Further Resolved that the undersigned respectfully petition your excellency, Hon. William Langer of the State of North Dakota, and demand that you immediately call a special session of the legislative Assembly for the purpose and the purpose alone of CANCELLING ALL TAXES now of record in our State and that all taxes against real property in the future be limited to 10% of its fair rental value.

"That such call be made immediately before more families leave and the State become depopulated."

Kansas City

Bankers are taking considerable interest in legislation that affects their business. In particular there is opposition to any tampering with the present law prohibiting the payment of interest on demand deposits. There is also outspoken opposition to any legislation looking to Government ownership of the Federal Reserve Banks. A third kind of legislation that is opposed is pending bills that would permit branch banking on certain conditions to cross state lines in the Federal Reserve District where the parent bank is located.

Bank visits during September brought to light the fact that there is still considerable opposition to the increased reserve requirements. In a number of cases country bankers very frankly stated that they are unable to see any justification for the raising of the reserve requirement of country banks. To them the problem with which the increased reserve requirement has to do is one confined to large cities of the East and they fail to see why country banks should be penalized. Calls on a number of non-member banks that are eligible for membership reveal that the increased reserve requirement is the thing that is keeping them from becoming members; they seemed quite enthusiastic about membership but reserve requirements are a stumbling block.

For instance, a banker seemed greatly interested in membership but stated that virtually all of his deposits were demand obligations and a

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Federal Reserve Bank of St. Louis

Kansas City continued

14 per cent reserve requirement would require a deposit with the Federal Reserve Bank of $75,000 or $80,000, and that this would leave an amount remaining insufficient to justify reasonable balances with correspondent banks. Some banks that borrow also make the observation that the cost to them of the funds impounded by higher reserve requirements is measured by the cost of the borrowed funds.

One state banker, who has borrowed rather irregularly the past few months from the Federal Reserve Bank on Government bonds, stated that the $1\frac{1}{2}$ per cent rediscount rate was very satisfactory and that he could see no reason for selling bonds that were yielding $2\frac{1}{2}$ per cent when he could borrow at this low rate.

Reports received from over the District indicate that there has been a noticeable let-down both in sentiment and business volume in the last thirty days. But the District is decidedly spotted. Bankers in Cheyenne, Wyoming, report no recession there, the high price of cattle being a boon to that state. Crops in Oklahoma were good and the oil industry is active at prices higher than a year ago. Lines of activity that have slumped badly in recent weeks in other parts of the District are reported still active in that state.

The northeastern part of the District is in relatively the poorest condition. The average temperature in August in Nebraska was the highest on record and rainfall was only about 60 per cent of normal. Great damage was done to a corn prospect that looked very promising in early July. Great damage was also done to oats. In addition to this the wheat crop was somewhat below normal. The number of hogs on farms is only a third of what it formerly was and the short corn crop this year will further delay the building up of a normal live stock population. These fundamental adjustments profoundly affect the bankers' problem in these communities and bank visits show they are the chief topic of interest and discussion.

Dallas

(Dallas submitted only statistical information as to visits to banks. The few visits made were routine in character and developed no information of general interest, according to Dallas' report.)

San Francisco

Salt Lake City Branch

Yields from farm crops harvested so far this year were above normal. Yield estimates of late potatoes and sugar beets yet to be harvested indicate an above average condition. However, prices of farm products

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San Francisco continued

generally, with some few exceptions, are below those of last year, but because of the above average yields the total farm income in this zone this year will be equal to or slightly exceed that of 1936. In Southern Idaho there is a tendency on the part of farmers to hold the bean, potato, and wheat crops for better prices, thus retarding to a certain extent normal bank liquidation. Ordinarily, at this time of the year live stock feeder operators are seeking bank credit, but so far to date there appears to be little interest by such operators because of the high price of feeder live stock. Most of the banks which would be affected by this probable retarded liquidation of bank loans to farmers have maintained throughout the year a favorable cash position, and as a result they will be able to accommodate normal business without resorting to borrowing from the Reserve bank.

Breeding ewes have been coming from the higher ranges in excellent condition and are now moving from the lower ranges to the winter range where conditions are claimed to be quite satisfactory. In Southern and Western Idaho, where considerable supplemental winter feeding is done because of early lambing, there is ample hay and other feed available at reasonable prices. The same conditions prevail with respect to range cattle, and, on the whole, conditions are promising to the livestock industry going into the winter.

It is reported that a greater number of beef cattle than usual are now moving to market, and that many old ewes have been sold at good prices and moved to the Eastern section of the United States, which places the general livestock and range situation, particularly in Southern Idaho, in a very satisfactory condition.

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PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

SEPTEMBER, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	64	—	64	None	—	None	—
New York	122	38	160	9	1,750	None	—
Philadelphia	63	34	97	3	510	2	110
Cleveland	9	10	19	11	3,340	1	25
Richmond	86	87	173	1	250	None	—
Atlanta	20	11	31	None	—	None	—
Chicago	12	17	29	24	3,285*	3	680
St. Louis	31	28	59	14	2,700	1	40
Minneapolis	59	67	126	10	1,885	4	152
Kansas City	20	15	35	5	946	None	—
Dallas	3	1	4	None	—	None	—
San Francisco	67	21	88	13	733	None	—

*Attendance at 2 not reported.

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R-94

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1937.

SUBJECT: Holidays during November, 1937.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve banks and branches during the month of November:

November 1 (Monday), All Saints Day:
New Orleans Branch

November 2 (Tuesday), Election Day:
New York
Buffalo
Philadelphia
Cleveland (at 1:00 P.M. Will participate in clearings)
Cincinnati (at 1:00 P.M.)
Pittsburgh
Richmond

November 11 (Thursday), Armistice Day, and
November 25 (Thursday), Thanksgiving Day:
All Federal Reserve banks and branches.

On November 11 and November 25 there will be neither a transit nor a Federal Reserve note clearing through the Interdistrict Settlement Fund. On November 1 and 2 the Federal Reserve bank offices affected will not participate in either the transit or the Federal Reserve note clearing through the Fund. Please include transit clearing credits for such offices on November 1 and 2, respectively, with your credits for the following business day. No debits covering shipments of Federal Reserve notes for the account of the head offices concerned should be included in your note clearing of November 2.

The Board's offices will be closed on November 25 (Thursday), Thanksgiving Day. The statements of condition of Federal Reserve

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banks and of reporting member banks in New York City and Chicago as of November 10 and 24 will be issued on the following Friday, November 12 and 26, respectively, instead of on Thursday as usual.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

R-95

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1937.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZJET" - Treasury Bills to be dated
October 27, 1937, and to
mature March 16, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZJAB" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 25, 1937.
R-96.

SUBJECT: Forms for use during 1938.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required at your bank (including branches, if any) during the calendar year 1938:

Form	Title
F.R.A. 5	Federal Reserve notes - Daily statement of Federal Reserve Agent.
44	Monthly report of Federal Reserve notes showing the number of each denomination and aggregate amount received, issued to bank, and returned to the Comptroller of the Currency.

Very truly yours,

E L Smead

E. L. Smead, Chief,
Division of Bank Operations

TO ALL FEDERAL RESERVE AGENTS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 26, 1937.
R-97.

SUBJECT: Data for 1937 Annual Report of the Board of Governors of the Federal Reserve System.

Dear Sir:

It will be appreciated if you will kindly furnish us, not later than January 20, 1938, with the following data for use in the Board's forthcoming annual report:

1. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during each month of the calendar year 1937 and during the year as a whole.

2. Statement showing the following information as of December 31, 1937:

   Number of member banks in operation
     National banks
     State bank members

   Number of nonmember banks on the par list
     Nonmember State banks (exclusive of mutual savings banks)
     Private banks

   Number of nonmember banks not on the par list
     Nonmember State banks (exclusive of mutual savings banks)
     Private banks

This statement should show separate figures for each State or part of State in the territory assigned to the head office and to each branch, if any. The figures of banks on the par list and not on the

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par list should include all banks on which checks are drawn. They should be reconciled with the latest State banking department abstracts and the Board advised of the names and locations of the banks which account for any differences between the number of banks shown in your statement and in the State banking department abstracts of condition reports. A copy of the reconcilement should accompany the statement showing the number of nonmember banks on par list and not on par list, unless the reconcilement would delay the furnishing of the statement beyond January 20, in which case the statement should be forwarded before the reconcilement is effected and the Board advised of any necessary changes in the statement at the time the reconcilement is furnished.

Very truly yours,

E L Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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R-98

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 26, 1937.

Dear Sir:

It has been suggested that you might wish to have for the convenient reference of the directors and other officers of your bank copies of the address which President Roosevelt made at the formal opening of the Board's new building on October 20, 1937. Therefore, I am sending you at this time twelve copies. It is expected that it will be reproduced in the forthcoming issue of the Federal Reserve Bulletin.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 26, 1937.
R-99.

SUBJECT: Forms for use during 1938.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1938:

Form	Title
34	Daily balance sheet. (Please state the number required for the head office and each branch separately, and indicate any special punching that may be desired.)
38	Classification of discounted and purchased bills held at the end of the month.
95	Monthly report of earnings.
96	Monthly report of current expenses.
96a	Reimbursable expenditures.
160	Monthly report of receipts and payments of paper currency.
E	Semiannual functional expense report.

Please show separately the number of copies of each form, except form 34, required if revised and the number if not revised. Beginning with January, 1938, separate reports on form 34 for head office and each branch need be submitted as of the last business day of each calendar month only.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, October 29, 1937

The following summary of general business and financial conditions in the United States, based upon statistics for September and the first three weeks of October, will appear in the November issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Declines in industrial production in September and the first part of October reduced output to the level of a year ago, and commodity prices continued to decline. The volume of distribution to consumers was maintained at the level of previous months.

Production and employment

Volume of industrial production, as measured by the Board's seasonally adjusted index, declined in September to 111 percent of the 1923-1925 average as compared with 114 in June and July and 117 in August. At steel mills, where output in August had been at a high level, partly on the basis of orders placed earlier in the year, activity was reduced to an average rate of 75 percent of capacity in September. This decline continued in October, as new orders were in limited volume, and the rate of steel output in the fourth week of the month is estimated at about 52 percent of capacity. There were also declines in September in activity at woolen mills, shoe factories, and at sugar refineries, and activity at cotton mills showed little change, although an increase is usual at this season. Increases in output were reported at silk mills

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and meat packing establishments where activity recently has been at a low level. Automobile production showed a decline from the high level of August, but in the first three weeks of October advanced sharply as most manufacturers began assembling 1938 models.

Mineral output increased in September, reflecting an expansion in coal production. Output of crude petroleum declined somewhat but continued in large volume.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, was smaller in September and the first half of October than in the preceding six weeks, with a moderate decline in private residential building and sharp declines in awards for other private work and for publicly-financed work. Currently the dollar volume of private work is about the same as a year ago, while awards for public work are in smaller volume.

Factory employment showed little change from August to September, although an increase is usual at this season. There were declines in the number employed at textile mills, shoe factories, railroad repair shops, and lumber mills. At canning establishments employment increased seasonally. Factory payrolls, which usually expand in September, declined substantially, reflecting principally a reduction in the average number of hours worked by those employed. The levels of employment and payrolls continued to be considerably above last year.

Distribution

Distribution of commodities to consumers by department stores

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and mail order houses increased more than seasonally in September, and variety store sales showed about the usual seasonal expansion. Freight-car loadings increased by the usual seasonal amount from August to September.

Commodity prices

The general level of wholesale commodity prices, according to the Bureau of Labor Statistics' index, declined from 87.5 percent of the 1926 average in the latter part of September to 85.2 in the middle of October. During that period price declines occurred in most commodities traded in on organized exchanges and in some manufactured products. In the ten days ending October 25 commodity markets were steadier. New models of automobiles are currently being introduced at higher prices.

Bank credit

Excess reserves of member banks, after increasing in September from $750,000,000 to over $1,000,000,000, showed little further change in October.

Total loans and investments of reporting member banks in 101 leading cities declined somewhat in the four weeks ending October 20, reflecting chiefly a steady reduction throughout the period in loans to security brokers and dealers. Commercial loans increased further.

Money rates and security prices

Rates on 9-month Treasury bills in October declined to about 3/8 of one percent, the lowest since last January. Prices of high-grade bonds showed little change in September and October, while prices of lower-grade bonds and of common stocks declined sharply to the lowest levels since the middle of 1935.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers of Thursday, October 28, 1937.

October 27, 1937

The Board of Governors of the Federal Reserve System today adopted the following resolution:

BE IT RESOLVED, That, effective November 1, 1937, the supplement to Regulation U is amended by changing the maximum loan value figure "45 per cent" in the first paragraph of said supplement to "60 per cent", and by changing the maximum loan value figure "60 per cent" in the second paragraph of said supplement to "75 per cent", so that as thus amended the supplement will read as follows:

"SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective November 1, 1937

For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 60 per cent of its current market value, as determined by any reasonable method.

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 accepts in good faith a signed statement to the effect (1) 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) that the securities hypothecated to secure the loan are securities carried for the account of his customers other than his partners."

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers
Thursday, October 28, 1937.

October 27, 1937

The Board of Governors of the Federal Reserve System today adopted the following amendment No. 10 to Regulation T, effective November 1, 1937:

Amendment No. 10 of Regulation T - Effective November 1, 1937

BE IT RESOLVED, That, effective November 1, 1937, Regulation T, as amended, is further amended in the following respects:

1. Section 2(d) of said regulation is amended to read as follows:

"(d) The term 'combined account' means the combination of all accounts (except 'special accounts') between any creditor and any customer, or any group of customers acting jointly."

2. Section 2(m) of said regulation is amended to read as follows:

"(m) The term 'customer' means any person (including any partner of a creditor firm in his relations with the firm) to or for whom, or any group of persons to or for whose joint account, a creditor is carrying any short position in securities or extending or maintaining any credit; Provided, however, That a partner shall not be deemed to be a customer of his firm within the meaning of this regulation with reference to his financial relations to the firm as reflected in his capital and ordinary drawing accounts."

3. Clause (2) of section 3(b) of said regulation is amended to read as follows:

"(2) in such account transactions are permitted and credit is extended or maintained solely for the purpose of enabling such member, broker, or dealer to carry accounts for his customers other than his partners, and"

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4. Clause (3) of section 3(f) of said regulation is amended to read as follows:

> "(3) The current market value of any securities sold short in the account (other than unissued securities) <u>plus</u>, for each such security (other than an unissued or exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the amount to be included as the margin required for such short sales, except that such amount so prescribed need not be included when there are held in the account securities exchangeable or convertible into such securities sold short;"

5. The first sentence of the last paragraph of section 3(f) of said regulation is amended to read as follows:

> "For the purposes of this regulation, the adjusted debit balance of every account in which any short position in securities (other than unissued or exempted securities) is carried or any credit is extended or maintained for the purpose of purchasing or carrying securities shall be computed in accordance with the above rules, regardless of whether it be a combined account or a special account."

The Board also adopted the following supplement to Regulation T, effective November 1, 1937:

BE IT RESOLVED, That, effective November 1, 1937, the supplement to Regulation T is amended to read as follows:

"BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION T

Effective November 1, 1937

<u>Maximum Loan Values</u>. - Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 3 of its Regulation T, as amended, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered securities (other than exempted securities) for the purposes of Regulation T:

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(1) General rule. - Except as provided in paragraphs (2) and (3) of this supplement, the maximum loan value of a registered security (other than an exempted security) shall be 60 per cent of the current market value of the security.

(2) Extension of credit to other members, brokers and dealers.- The maximum loan value of a registered security (other than an exempted security) in a special account with another member, broker or dealer, which special account complies with subsection (b) of section 3 of Regulation T, as amended, shall be 75 per cent of the current market value of the security.

(3) Extension of credit to distributors, syndicates, etc.- The maximum loan value of a registered security (other than an exempted security) in a special account with a distributor, syndicate, etc., which special account complies with subsection (c) of section 3 of Regulation T, as amended, shall be 80 per cent of the current market value of the security.

Margin Required On Short Sales.- Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 3 of Regulation T, as amended, the Board of Governors of the Federal Reserve System hereby prescribes that the amount to be included in the adjusted debit balance of an account, pursuant to section 3(f)(3) of Regulation T, as amended, as margin required on short sales of securities (other than unissued or exempted securities) shall be 50 per cent of the current market value of each such security except that in the case of a special account with another member, broker or dealer, which special account complies with subsection (b) of section 3 of Regulation T, as amended, such amount shall be 35 per cent of such current market value."

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R-103

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1937.

Dear Sir:

For your information there are inclosed copies of our replies to letters received from the Federal Reserve Bank of Kansas City and Mr. E. N. Dekker, Assistant Vice President of the National City Bank of Cleveland, Ohio, with respect to a questionnaire on industrial loans which Mr. Dekker has asked the Federal Reserve Banks to fill out. It is understood that Mr. Dekker has written to all Federal Reserve banks, and it will be appreciated if you will furnish the Board with a copy of your reply to him.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT KANSAS CITY

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October 28, 1937.

Mr. C. A. Worthington,
First Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Worthington:

Referring to your letter of October 21, since Mr. Dekker asks for certain information which cannot be compiled from information at the Board's offices, it is suggested that you transmit such of the desired information as is available direct to Mr. Dekker and furnish the Board with a copy of your reply.

With respect to questions A7 and B4, it might be well to tell Mr. Dekker that since most of the loans made by the Federal Reserve banks are for long periods and many of them are payable in installments, it is not possible to give him detailed figures with respect to the repayment record at this time. A general statement as to repayment records, however, might be given if you think it advisable.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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Mr. E. N. Dekker,
Assistant Vice President,
The National City Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Dekker:

Reference is made to your letter of October 19 inclosing a questionnaire in regard to the operations of the twelve Federal Reserve banks under Section 13b of the Federal Reserve Act, and requesting that the desired information for each Federal Reserve District be furnished by the Board if available.

The Board has not had compiled data in regard to operations under Section 13b in the detail called for by your questionnaire. There is inclosed, however, a mimeographed statement showing information by Federal Reserve districts as to applications for industrial advances and commitments received by each Federal Reserve bank to September 29, 1937, the amount of such applications approved by the Federal Reserve banks, and the amount of industrial advances and commitments outstanding, together with certain other information regarding applications for industrial advances and commitments.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

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R-104

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZJIL" - Treasury Bills to be dated November 3, 1937, and to mature March 16, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZJET" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-105

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1937.

SUBJECT: Recent Ruling of the Board of Governors Regarding Savings Deposits.

Dear Sir:

For your information there is inclosed herewith a copy of a telegram addressed to the Board by the First Vice President of the Federal Reserve Bank of Dallas and a copy of our reply thereto with regard to the incorporation in a general circular to member banks of the ruling attached to the Board's letter of October 30, 1937, S-41.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-105-a

TELEGRAM
Leased Wire Service

Received at Washington, D. C.
1937 NOV 3 PM 12 23

DALLAS NOV 3-37

MORRILL
WASHINGTON

As ruling of Board attached to letter S-41 is in effect footnote or supplement to Regulation Q and therefore of particular interest to many member banks please advise whether Board has any objection to our incorporating entire ruling in general circular. Even though ruling will be published in November Bulletin think it may receive attention more promptly if transmitted in circular form.

GILBERT

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R-105-b

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
Washington

November 3, 1937.

GILBERT - DALLAS

Referring to your wire this date, there is no objection to incorporating entire ruling attached to Board's letter of October 30, 1937, S-41, in general circular to your member banks.

(Signed) Chester Morrill

MORRILL

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-106
November 5, 1937

Dear Sir:

Referring to the Board's letter B-1186 of January 5, 1937, following is a statement of changes during October in the list of nonmember banks that have filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Delete "Bank of America", San Francisco, California, and add "Central Bank", Oakland, California, with the following note:

"(Name and location changed as of October 22, 1937, from 'Bank of America', San Francisco, California, in which name the agreement was executed.)"

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS.

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R-107

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release. November 6, 1937.

Chairman Eccles issued the following:

"An article which appears in a widely circulated banking publication today states that a bill 'which would make the Federal Reserve Board the supreme policy-making, chartering and supervising authority for all banks in the country is now being written at the behest of Marriner S. Eccles, Chairman of the Federal Reserve Board'. This statement is unqualifiedly untrue."

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R-108

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZJOY" - Treasury Bills to be dated November 10, 1937, and to mature March 17, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZJIL" on page 172.

Very truly yours,

L. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-109

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 9, 1937.

Dear Sir:

There are being sent you under separate cover today copies of an address made by Mr. Szymczak on November 5, 1937, before the Eighth New England Bank Management Conference at Boston, Massachusetts, on the subject: "The Technique of Credit Regulation".

Copies of the address are being forwarded to you for the purpose of making them available to the officers and directors of your bank and branches, if any, and to any member banks which may desire them. Additional copies will be furnished upon request.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Z-55

THE TECHNIQUE OF CREDIT REGULATION

ADDRESS BY

M. S. SZYMCZAK, MEMBER,

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

AT

EIGHTH NEW ENGLAND BANK MANAGEMENT CONFERENCE,

HOTEL STATLER, BOSTON, MASSACHUSETTS,

FRIDAY, NOVEMBER 5, 1937.

(Not to be released until
3:00 p.m. Friday, November 5, 1937.)

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THE TECHNIQUE OF CREDIT REGULATION

During the past year, the Federal Reserve System has adopted measures of unusual significance and interest. Some were the familiar measures of credit regulation. Others were quite new, and involved the exercise of powers only recently granted by Congress to the Federal Reserve System and never before exercised.

These measures serve to illustrate the technique of credit regulation and I should like to review them with you as examples of technique rather than from the standpoint of policy. Let me first restate the purposes and scope of credit regulation and also the general long range policy that has been pursued by Federal Reserve authorities in the recent past.

The basic purpose of what may be described broadly as central banking powers, such as those vested in the Federal Reserve System, is aid in stabilizing and equalizing monetary conditions so that the supply of credit is neither inadequate for sound business activity nor so excessive in amount that it invites speculative abuse. For the achievement of this purpose, the Federal Reserve banks depend largely upon open market operations. That is, they may purchase investment securities in the open market at times when the supply of funds in the money market needs to be increased, or they may sell investment securities at times when an excess of funds overhangs the money market and needs to be absorbed lest it stimulate speculation.

In addition there are other means of influencing credit, particularly by raising or lowering the discount rate and by advancing funds

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to such individual member banks as apply for accommodation to replenish their reserves.

These means of credit technique are exercised by the banking authorities to implement policies which they believe the economic situation requires. At one time, they may feel that the situation requires a restraining policy, and to carry out that policy they may sell securities from their portfolio, or they may raise rediscount rates, or do both. At another time, they may believe that the situation requires a policy of ease, and to carry out that policy they may purchase securities in the open market - thereby supplying banks with additional reserves - and they may lower the rediscount rates. Open market operations and changes in the discount rate are the two principal means of credit technique. They are flexible instruments and they are general in their application. That is, they affect the credit picture as a whole, rather than individual banks.

As you know, the Federal Reserve authorities have felt and frequently stated that an easy money policy is essential to help promote economic recovery. Rather than speak of the considerations upon which this policy is based, I wish to invite your attention to the various technical steps which have been taken and the several means employed in carrying out this broad general policy during the past year or so. A knowledge of the technique employed to implement a particular policy seems to me of practical importance and of interest irrespective of what that policy may be. In other words, I wish to discuss <u>how</u> a given policy was effected rather than <u>why</u>.

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The measures I wish to review began with the increase in reserve requirements a year ago last August. This was not what I call a measure of credit technique. It was instead intended as a basic readjustment which placed the System once again in a position to use its traditional and flexible credit instruments and to make them effective. It was adopted because a situation had developed in which the ordinary means of credit technique - namely, open market operations and rediscount rates - had lost their efficacy. This situation arose primarily, as you know, from the flow of gold into this country from abroad, as a result of which the excess reserves of domestic banks swelled to such an extraordinary degree that the customary instruments of credit policy were wholly ineffective. If the Federal Reserve System had desired to have easy money conditions regardless of the consequences that might ensue in case unsound and inflationary conditions developed, it could have adopted a policy of doing nothing at all. But it sought instead to reestablish the position it was intended by law to occupy - a position in which it could act promptly and effectively either in the direction of easing the credit situation further, or in the direction of restraint - whichever appeared to be in the public interest.

Theoretically and historically, the technique of credit regulation has been considered most efficient when member banks have had a minimum of excess reserves and could expand the amount of credit outstanding when and as steps are taken to increase their reserves. This can be most readily effected by open market purchases, which have the effect of making funds available to the money market and of making it unnecessary

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for most member banks to apply to the Federal Reserve banks for advances. However, should individual banks still require funds, they may borrow from the Federal Reserve bank and when they do so its discount rates can be reduced in conformity with a policy of ease, or conversely can be raised if an opposite policy is adopted. But, of course, when the banks are superabundantly supplied with reserve funds from an outside source and therefore have little, if any, occasion to seek additional funds from the Federal Reserve banks, the discount rate, like open market operations, ceases to be applicable. Under such circumstances, even if the Federal Reserve System were to sell off its entire portfolio of government securities, the action would fail to absorb the excess reserves. Moreover, by such action the System would be flinging away the possibility of conducting further open market operations to any purpose, because subsequent purchases of securities that it might make would merely increase the excess of reserves again. The System would be exhausting its principal means of influencing credit conditions. In other words, the situation would continue to be out of control.

The Board, in explaining its action at the time, said:

"For current adjustments of the reserve position of member banks to changes in the credit situation the Reserve System should continue to rely on the traditional methods of credit control through discount policy and particularly through open-market operations. By the present action excess reserves will be reduced to within the amount that could be absorbed through open-market operations, should such action become

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desirable. Conversely, should conditions develop requiring expansion of reserves, they could be increased through open-market operations."

Subsequently, the Secretary of the Treasury announced that the Treasury "proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department. This will be accomplished by the sale of additional public-debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction."

The Treasury's purchases of gold pursuant to this policy had the effect of keeping the gold from getting into bank reserves and swelling them to greater volume.

On January 30 the Board announced final increases in reserve requirements and pointed out in its statement made at the time that by this action the System would be restored to "a position where such reduction or expansion of member bank reserves as may be deemed in the public interest may be effected through open-market operations, a more flexible instrument, better adapted for keeping the reserve position of member banks currently in close adjustment to credit needs."

These measures - the increase in reserve requirements by the Federal Reserve System and the sterilization of gold by the Treasury - were unusual measures taken to offset an unusual condition, namely, the enormous inflow of capital and gold from abroad. They were outside

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the category of normal measures of credit regulation. They were related to normal measures of credit regulation in somewhat the same way that reballasting a ship is related to its regular operation. They were measures intended to neutralize the effect of major financial disturbances originating abroad, and to keep the domestic credit situation amenable to the established technique of regulation.

As the Board emphasized at the time, these measures involved no abandonment of the policy of monetary ease which the Board has consistently pursued, by using, as it announced that it would, the customary and flexible instruments of open market and rate policy.

At this point perhaps I should briefly restate the process by which open-market operations achieve their purpose. In the first place, as you know, when a bank enlarges the amount of credit it has outstanding, either by additional loans to its customers or by additional purchases of investment securities, its reserves tend to be reduced. Consequently it cannot enlarge the amount of credit it has outstanding unless it has reserves in excess of what it is required to have. On their own initiative banks may procure additional reserve funds either by borrowing or by selling securities. Or the Federal Reserve System on its initiative may supply banks in general with additional reserve funds by open-market purchases of investment securities; for as the Federal Reserve banks pay for the securities they buy, either by check or by credit, the reserves of member banks are increased. In April, the Federal Reserve banks purchased about $100,000,000 of securities and this amount immediately flowed into member bank reserve accounts. It eased their position so

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that they would have no lack of funds for continuing to extend credit, whether in the form of loans or in the form of investments. Contrariwise, if the Federal Reserve System had sold securities, the process of paying for them, whether purchased by member banks or by the customers of member banks, would have reduced the reserves of member banks. Purchases by the System tend to ease the money market, sales by the System tend to tighten it.

The ease produced by the System's purchases in April, therefore, was deliberately brought about. If need had arisen that condition of ease could have been as deliberately ended by a reversal of policy and the sale of investments. The situation, in other words, was one that had been made amenable to the normal measures for influencing credit.

In August and September a further step in pursuance of the System's established policy was taken when the Federal Reserve bank rediscount rates were lowered. In approving the first of these changes the Board stated that its "approval was based upon the view that the reduction of discount rates at this time would assist in carrying out the System's policy of monetary ease and make Federal Reserve bank credit readily available to member banks for the accommodation of commerce, business and agriculture, without encouraging member banks to borrow outside of their districts or to liquidate their portfolios in order to be in a position to meet the needs of present or prospective borrowers."

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The Board went on to say "The reduction in discount rates, which have had little or no practical effect during the period when excess reserves were abnormally large and widely distributed throughout the System, brings the rates into closer relation with the interest rate structure generally prevailing, and affords to member banks the benefit of rates, on advances made by the Federal Reserve bank, which are in line with those available in the money market. During the extended period when excess reserves of the banking system were between two and three billions of dollars, the occasion did not arise except in rare instances for member banks to borrow from the Federal Reserve banks, and the discount rates were accordingly inoperative as a practical matter.

"As a result of the continued progress of the recovery movement, demands of agriculture, industry and commerce for bank accommodation have steadily increased and at the present time are augmented by seasonal requirements, particularly with relation to crop movements.

"It is the Board's view, therefore, that at this time the Federal Reserve System can best discharge its public responsibility and promote the continuance of recovery by making it possible for member banks to obtain accommodation from Federal Reserve banks at rates which will encourage them to employ their funds to meet the needs of agriculture, industry and commerce."

Later in September, the Federal Open Market Committee announced that it had authorized purchase in the open market from time to time

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of "sufficient amounts of short-term United States Government obligations to provide funds to meet seasonal withdrawals of currency from the banks and other seasonal requirements." It said further:

"Reduction of the additional holdings in the open market portfolio is contemplated when the seasonal influences are reversed or other circumstances make their retention unnecessary.

"The purpose of this action is to maintain at member banks an aggregate volume of excess reserves adequate for the continuation of the System's policy of monetary ease for the furtherance of economic recovery."

At the same time, the Committee announced that at the request of the Board of Governors the Secretary of the Treasury had agreed to release - that is, to desterilize - approximately $300,000,000 of gold from the Treasury's inactive account. Accordingly, the Treasury was credited with that amount on the books of the Federal Reserve banks which in the course of regular Treasury disbursements found its way into the reserve accounts of member banks and increased their available funds correspondingly. This was an effective means of utilizing our monetary measures to maintain the policy of ease. The Committee's statement made at the time pointed out that:

"This action is in conformity with the usual policy of the System to facilitate the financing of orderly marketing of crops and of autumn trade. Together with the recent reductions of discount rates at the several Federal Reserve banks, it will enable the banks to meet readily any increased seasonal demands for credit and currency and

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contribute to the continuation of easy credit conditions."

As stated in the October Federal Reserve Bulletin, this action toward augmentation of member bank reserves was taken to anticipate the usual seasonal needs of member banks for currency and credit. The action of the System in bringing about an increase of available funds put banks in a still easier position to meet seasonal needs as well as increasing demands for bank credit. It was an exercise of credit technique under normal and typical conditions.

Before passing on to the latest measure of credit technique taken by the System, I want to mention a recent change in the regulations governing discounts by the Federal Reserve banks. This change was effected by the issuance of Regulation A in revised form effective October 1. Its significance lies in the fact that in determining the eligibility of paper for discount, the form of the obligations to be discounted is considered of less importance than it used to be. Originally the privilege of rediscount at the Federal Reserve banks had been restricted to relatively short-term paper arising from certain commercial and agricultural activities. As you know, the amount of such paper has tended in recent years to constitute a smaller and smaller proportion of the total amount of paper available to banks. To the extent that banks were dependent on such paper for discounts, the decrease in its amount meant in effect a curtailment of the power of the Federal Reserve banks to extend credit. The Banking Act of 1933 and the Banking Act of 1935 both enlarged the classification of paper upon which individual member banks might procure funds from the Federal

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Reserve banks for the replenishment of their reserves, and Regulation A as recently issued by the Board carries out the purpose of these changes in the law.

The new Regulation had been in preparation for a long period and the time of its issuance had no special bearing with respect to the current situation. It was rather a longer range measure. Moreover, its issuance was not of course a measure of credit regulation, like open market operations or changes in the discount rate, but a liberalization of the conditions under which the regular means of credit regulation are exercised. Let me emphasize that the term "credit regulation" is not altogether satisfactory. I have taken care to avoid using the phrase "credit control", for that is far too strong. The technique which I have been describing "influences" rather than "controls".

The latest measure of credit regulation taken by the System was the change in margin requirements announced a little over a week ago and effective last Monday. The power to fix margin requirements is, as you know, a new and special responsibility imposed upon the Board by the Securities Exchange Act which Congress adopted in 1934. Its effect is not general upon the whole field of credit. In this respect, it differs from other means of credit regulation, namely, open market operations and changes in the discount rate. It is directed exclusively at the use of credit advanced by brokers, dealers and by banks for the purpose of carrying registered securities. Theoretically,

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margin requirements can be raised when it appears advisable to restrain speculative use of credit and they can be lowered when it appears advisable to relax the restraints.

Because of the special nature of this particular power of credit regulation, it can be exercised independently of other measures by which the credit situation is influenced. Thus it is possible to pursue a restraining policy with respect to the use of credit for securities' speculation at the same time that an easy money policy is being pursued with respect to the use of credit for commerce, industry and agriculture. By its most recent action the Board reduced margin requirements from 55 percent to 40 percent. This eased credit conditions so far as securities' trading is concerned. It happens that this policy of ease in the special field of stock market trading coincided with the policy of ease which the Board has all along pursued in the general field of credit, but since I am discussing the technique of credit regulation I wish to emphasize the fact that conditions do not always call for a parallel policy by any means. The peculiar character of the power to fix margin requirements is that it makes it possible to influence credit conditions in a particular field independently, if necessary, of what is done in other fields.

It is evident that the exercise of Federal Reserve functions, like those of any other organization, involves sometimes merely the use of certain tools according to accepted procedure, and sometimes a change in the tools themselves or in the conditions under which they are to be used. Open market operations and changes in discount rates are the

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customary tools regularly employed in performance of Federal Reserve System functions. They are practicable, flexible and tested tools, which can be used to ease money conditions at one time and to tighten them at another. They can be made to accomplish their purposes without shock - without violent and painful adjustments. They can be applied gradually so that their effect is barely perceptible. If necessary, they can be applied vigorously and sweepingly.

It is true of any technique that its effectiveness is dependent upon the conditions under which it is used. The inflow of gold into this country from abroad created a condition under which the normal, flexible credit tools had lost their effectiveness. Raising or lowering the discount rate would mean nothing when banks had such a superabundance of funds that they had no occasion to look to Federal Reserve banks for accommodation. Selling government securities when the excess reserves to be absorbed were greater than the volume of securities available for sale, would amount to throwing away tools which are necessary if there is to be any effective supervision to influence general credit policies in the broad public interest.

There has been no change meanwhile in the basic policy of monetary ease. Open market purchases of securities and lowering of the rediscount rates have been undertaken in pursuance of this same fundamental policy. And it is important to note that a situation has been restored where the normal technique of credit regulation once more applies.

The functions and responsibilities I have been discussing are not

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peculiar to the Federal Reserve System, of course. They are the functions and responsibilities of the central banking organization of virtually every country. And as such they differ essentially from the functions and responsibilities of privately managed banks operated for profit. A central banking organization makes loans and purchases securities not for the purpose of making a profit, but for the purpose of increasing the supply of credit available through privately managed banks. At the present time, for example, the twelve Federal Reserve banks have cash and reserves of nearly nine and a half billion and earning assets of only two and a half billion. Such a position, which is quite different from what an enterprise operated for profit would choose to maintain, is entirely normal for a central banking organization.

It appears, therefore, that during the period I have reviewed, the System has consistently pursued a policy of <u>monetary ease amenable to regulation</u>. The increase in reserve requirements and the sterilization of gold had <u>amenability to regulation</u> as their objectives. The open market purchases, the reduction of discount rates, and the desterilization of a small portion of the gold had further <u>ease</u> as their objectives. Each of these measures has been effective in its own way in helping to achieve the combined objective. This series of measures is informative and illuminating to those who are interested in the technique of central banking, and I appreciate your kindness in giving me this opportunity to review that technique with you.

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R-110

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 12, 1937

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of October, 1937.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
October 1 to 29, 1937.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	25,000	130,000	12,480.00
New York	175,000	45,000	220,000	21,120.00
Philadelphia	90,000	25,000	115,000	11,040.00
Cleveland	90,000	-	90,000	8,640.00
Richmond	65,000	-	65,000	6,240.00
Atlanta	45,000	-	45,000	4,320.00
Chicago	50,000	55,000	105,000	10,080.00
St. Louis	40,000	25,000	65,000	6,240.00
Minneapolis	30,000	-	30,000	2,880.00
Kansas City	60,000		60,000	5,760.00
Dallas	25,000	25,000	50,000	4,800.00
San Francisco	100,000	25,000	125,000	12,000.00
	875,000	225,000	1,100,000	$105,600.00

1,100,000 sheets @ $96.00 per M,.......$105,600.00

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R-111

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1937.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZJUG" - Treasury Bills to be dated November 17, 1937, and to mature March 17, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZJOY" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-112

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 15, 1937.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of October, 1937.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 1937.

Federal Reserve Bank	Number of words sent	Words sent by N. Y. chargeable to other F.R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Boston	35,156	1,033	36,189	$ 253.78	$ —	$ 253.78	$ 561.21	$ 253.78	$ 307.43
New York	121,409	—	121,409	996.67	—	996.67	1,882.78	996.67	886.11
Philadelphia	29,659	1,044	30,703	236.61	—	236.61	476.14	236.61	239.53
Cleveland	46,280	1,059	47,339	236.21	—	236.21	734.12	236.21	497.91
Richmond	50,635	1,013	51,648	193.30	—	193.30	800.95	193.30	607.65
Atlanta	54,089	1,010	55,099	276.07	—	276.07	854.46	276.07	578.39
Chicago	79,947	1,273	81,220	1,104.13	—	1,104.13	1,259.54	1,104.13	155.41
St. Louis	66,468	1,007	67,475	189.63	—	189.63	1,046.39	189.63	856.76
Minneapolis	26,895	999	27,894	234.72	—	234.72	432.57	234.72	197.85
Kansas City	62,100	1,005	63,105	259.18	—	259.18	978.62	259.18	719.44
Dallas	57,494	973	58,467	267.75	—	267.75	906.69	267.75	638.94
San Francisco	74,613	1,076	75,689	453.33	—	453.33	1,173.77	453.33	720.44
Board of Governors	431,704	—	431,704	1,472.80	11,627.83	13,100.63	6,694.77	13,100.63	—
Total	1,136,449	11,492	1,147,941	$6,174.18	$11,627.83	$17,802.01	17,802.01	17,802.01	$6,405.86

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.015507774) for business handled during the month.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-113

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 17, 1937.

Dear Sir:

There are being sent you under separate cover today copies of an address made by Mr. Szymczak on this date at the meeting of the Municipal Bond Club of New York on the subject: "Federal Reserve Responsibilities".

Copies of the address are being forwarded to you for the purpose of making them available to the officers and directors of your bank and branches, if any, and to any member banks which may desire them. Additional copies will be furnished upon request.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Z-58

FEDERAL RESERVE RESPONSIBILITIES

ADDRESS BY

M. S. SZYMCZAK, MEMBER,

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

AT MEETING OF

THE MUNICIPAL BOND CLUB OF NEW YORK

HELD AT THE

BANKERS CLUB - 120 BROADWAY

NEW YORK, NEW YORK

WEDNESDAY, NOVEMBER 17, 1937.

(Not to be released until 1:00 P.M.
Wednesday, November 17, 1937)

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FEDERAL RESERVE RESPONSIBILITIES

As you know, there has long been a tendency to over-emphasize the effect of monetary and credit factors on business. The more one surveys monetary history the clearer it becomes that what can be accomplished through monetary and credit measures by themselves is strictly limited.

In stressing this point, however, I do not mean to minimize the influence of such measures. In their way they are highly important and by the same token the Federal Reserve System is a highly important instrumentality.

What is the Federal Reserve System?

The question may be answered from the legal point of view by saying that it is a system comprising about 6,400 member banks in all parts of the country, twelve Federal Reserve banks so situated as to serve the twelve regions into which the country is divided, the Board of Governors, which is the coordinating body situated in Washington, the Federal Advisory Council, which represents the bankers of the twelve Federal Reserve districts, and the Federal Open Market Committee, which comprises members of the Board in Washington and representatives of the twelve Federal Reserve Banks.

The same question - what is the Federal Reserve System? - may be answered from the functional point of view by saying that it possesses certain supervisory powers and exercises regulatory influence over the supply and cost of credit in the United States. It is an institution

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created for public service, not for private profit.

In its regional form of organization the Federal Reserve System is peculiarly an American institution, having central banking functions which it performs substantially as do the central banks of other countries. The term central banking, as I use it here, should not be confused or misunderstood. I am speaking of the functions of central banking rather than the form of the organization which performs those functions, however owned or controlled. Practically every civilized country has a central banking institution. In Canada, it is the Bank of Canada; in England, the Bank of England; in France, the Bank of France; in Germany, the Reichsbank. The entire list would cover the American, European, African, and Asiatic continents. In every case the central bank by its very nature stands in a unique relationship both to the Government of its country and to the other banks and financial institutions of its country. Its function in every case is that of influencing credit conditions in the public interest by the exercise of its financial and administrative powers. The most prominent of these powers are: To make loans to banks and other financial institutions, to fix the rediscount rate, and to buy and sell securities in the open market. The exercise of any one or all three of these powers has certain direct and to a large extent predictable effects upon the supply and cost of credit. In addition the central bank is usually a bank of issue. Its notes circulate as money. Formerly this was one of the most important powers of a central bank but now that deposit credit transferable by check has become the principal means of payment used in

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civilized countries, the power of issuing notes has come to be incidental rather than essential to central banking. A more important function at present is that of holding the basic reserves of the banking system - a practice which nearly all central banks perform either as a matter of law or of established custom. It is through the functions of holding reserves and issuing notes that central banks are enabled to exercise control over the credit supply, because the need for currency or for additional reserve balances is what impels commercial banks to borrow from the central bank.

A further incidental characteristic is that the central bank usually acts as fiscal agent of the Government. In this capacity it serves as a bridge between the financial activities of the Government and the financial activities of private business. Ordinarily the Government's bank account is the largest single bank account in the country. The Government's receipts, its expenditures, and its balances are so large that they require special adjustment to the credit activities of private interests. Otherwise the accumulation, transfer and disbursement of Government funds would seriously disturb the money market, and hence business at large.

Since the central banking organization ordinarily carries the reserves of commercial banking institutions as well as the checking accounts of the Government, it is natural that it should play an important part in the collection and clearance of checks and in the transfer of bank funds. In this respect, as in furnishing currency for circulation, the monetary nature of central bank functions

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becomes most apparent.

From country to country the nature of central bank operations and the character of central banking powers will vary in accordance with national institutions and business customs. Fundamentally, however, the processes of central banking are much the same in all countries.

Perhaps the most striking feature of the central banking organization of this country is that it comprises not a single institution but several regional institutions coordinated by a public body in Washington. The Bank of England, for instance, is a single institution with about nine branches which are merely detached offices of one corporate entity. The central banks of most other countries likewise are single institutions. There are several reasons why the central banking system of the United States comprises a number of federated institutions instead of one. Perhaps the most obvious is that the country is extremely large and the number of independent local banks which cover it is also large. Most other countries have a relatively smaller area to serve and a far smaller number of separate banks and financial institutions. The Federal Reserve System, through the twelve regional Federal Reserve Banks, effects a decentralization of banking reserves and gives to each region a large degree of credit autonomy. As its name indicates, it is a federal system, based upon the federal pattern which is distinctive of our American institutions.

The term "central banking" is not as familiar in the United States

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as it might be. The conception of what central banking is and of what are the essential functions of the Federal Reserve Banks is not widely understood. This is partly because the word "banking" suggests to most people the dealings they have with their own local banks. Consequently when the Federal Reserve Banks are thought of, the tendency is to consider their operations as merely differing in magnitude or degree from those of commercial banks. Yet this view is apt to generate serious misconceptions. The point of view of central banking differs profoundly from the point of view of commercial banking. It is the purpose of a Government to serve the public interest and the purpose of a central bank as a quasi-governmental institution is the same. Although the central banking mechanism, as, for example, in the case of our Federal Reserve Banks, has much the same form of corporate organization as a business corporation operated for profit and has a balance sheet showing assets and liabilities, including the item of paid-up capital and the item of gain or loss from operations, the purposes and objectives of its operations differ essentially from those of private business corporations. At the present time, for example, the twelve Federal Reserve Banks have cash and reserves of nearly nine and a half billion and earning assets of only two and a half billion. Such a position, which is quite different from what an enterprise operated for profit would choose to maintain, is entirely normal for a central banking organization.

When a Federal Reserve Bank makes a loan or purchases securities

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it is not doing so for the sake of profit as a commercial bank would be doing. The purpose of the loan or of the purchase of securities is to supply the money market with the additional funds which it appears to require. If the transaction is an individual loan, the additional funds are supplied by the transaction to some one individual bank which may or may not be experiencing the same demand that other banks are experiencing. If the transaction is an open market purchase of securities by the Federal Reserve Banks, the result is that the market as a whole is supplied with funds and no particular institution is singled out as experiencing the effect of the transaction any more than another.

In the same way, when, for example, the rediscount rate is advanced, the Federal Reserve Bank is not seeking an increase in its income as a commercial bank might under similar circumstances. Its purpose in raising the rediscount rate is to raise the cost of bank credit in general and thereby discourage tendencies to excessive use of credit.

It is significant of the importance of central banking functions that the Bank of England evolved into its position as a central bank in response to the requirements of the London money market without specific legislative action to that end. A few generations ago the Bank of England was primarily a private institution enjoying certain privileges but operated by its management as any other business enterprise might be in the pursuit of profit for its stockholders. The process by which it gradually changed its purpose, and subordinated the role of profits in its operations to that of serving the

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broad public purpose of stabilizing the money market was a long and gradual one. The assumption of its responsibilities was not so much the result of specific legislation as of voluntary action. The example I have just mentioned demonstrates how central banking functions came to be required by a business community and accordingly came to be performed even without provision by the legislature. Similarly, the need arose for our own Federal Reserve System and its functions have undergone evolution in gradual adaptation to the changing requirements imposed upon them by the economic world.

In addition to the essential central banking functions that I have been describing, the Federal Reserve System has a number of regulatory powers entrusted to it by Congress which are of more or less special nature. These include powers to fix reserve requirements within certain statutory limits, to fix margin requirements, and to examine banks and require of their management an abandonment of unsound banking practices on pain of dismissal. These administrative and regulatory powers of the Federal Reserve System are for the most part lodged in the Board of Governors in Washington. In performing them the Board is called upon to issue regulations, administrative rules, and orders. However, the Board does not function as a remote and detached body. In the case of open market operations, which are among the most important of Reserve Bank activities, the law provides that such operations must be conducted according to a uniform policy by all twelve Federal Reserve Banks in accordance with the directions of the Federal Open Market Committee. The Federal Open Market Committee comprises twelve members, seven of whom

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are the members of the Board of Governors, and five of whom are elected by the twelve Federal Reserve Banks. Thus the Federal Reserve Banks participate directly and responsibly in measures which are among the most important that can be taken by the Federal Reserve System. There is also the example of discount rates, which, as you know, are established by the Federal Reserve Banks subject to approval by the Board. In connection with various other matters also the Federal Reserve Banks are consulted. The Presidents of the Reserve Banks meet frequently in Washington and confer with the Board on questions having to do with the operation of the Federal Reserve System. When the Board is amending its regulations or issuing new ones, the drafts it prepares are submitted to the Federal Reserve Banks for their consideration, and their suggestions contribute substantially to the final form which the regulations take. In addition, drafts of regulations are usually submitted to responsible groups through the agency of banking or business associations. For example, the drafts of Regulations "T" and "U", which govern margin requirements, were submitted to exchanges for their consideration, and the Board feels that the many very practical comments received from the exchanges have been most helpful. The same holds true of other regulations, in the preparation of which bankers' groups and organizations are consulted. Furthermore, the Board is always accessible to those who wish to offer their suggestions, to criticize credit measures, or to ask for information.

The Board itself is an organization whose decisions are formulated by the vote of its members. In the interest of good administration, and as contemplated by the law, the Board is a unit.

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In order to assist in the determination of its policies, the Board maintains what is probably the most comprehensive organization for the compilation and analysis of economic and financial information maintained by any central banking organization in the world. The Board has this information and the expert opinion of a staff of analysts constantly at its disposal. The result is that any decision of the Board or of the Federal Open Market Committee has behind it not only the judgment of Board members and Federal Reserve Bank officers, but of an experienced staff of specialists in economic and monetary fields who bring a trained critical ability to the consideration of proposed measures.

In this connection I wish also to remind you that the Federal Reserve System publishes more detailed and important information about its conditions and its action than any other central banking organization in the world. Much of this information appears in occasional and periodic press releases, and is contained in the Federal Reserve Bulletin and the annual report of the Board of Governors.

Having reviewed with you the general purposes and characteristics of central banking, or as some prefer to call it, reserve banking, and having also pointed out how in this country the central banking system is organized on distinctly American principles and formulates its policy in accordance with those principles, I wish now to review, as I did in Boston the other day before the Bankers' Committee of the New England Council in their Executive Session, the course of policy followed by reserve authorities during the past year or so.

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As you know that policy has for several years been one of monetary ease. Statements to that effect have been frequently made by the Board, and I need not go into the considerations upon which the policy is based. I wish instead to point out briefly how the various measures which have been taken fit together as applications of central banking policy in given circumstances. The various steps which have been taken should be viewed not as isolated events, but as elements in a connected story.

To begin with, there was the increase in reserve requirements a year ago last August. I wish to emphasize the fact that the power to fix reserve requirements is not a customary means by which the central banking system effects current adjustments of the supply of credit to demand. It is in the first place a limited power - the Board cannot raise or lower requirements at will, but only within certain limits. Moreover it has not the flexible application that open market operations or discount powers have. It was exercised by the Board for the first time last August, and again last spring. The occasion of the exercise of this power was, as you know, the flow of gold into this country from abroad, and the resulting expansion of bank reserves to proportions quite beyond the possibilities of use as a basis for the legitimate expansion of credit. The circumstances were such that if the Federal Reserve System had desired to have easy money conditions regardless of the consequences that might ensue in case unsound and inflationary conditions developed, it could have adopted a policy of doing nothing at all. But it sought instead to reestablish the position it was intended by law to occupy - a position in which it could act promptly and effectively either in the direction of

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easing the credit situation further, or in the direction of restraint - whichever appeared to be in the public interest. Accordingly, when the Board raised reserve requirements, its purpose was not to abandon its policy of monetary ease but to continue that policy under conditions amenable to control.

Theoretically and historically, the technique of credit regulation has been considered most efficient when member banks have had a minimum of excess reserves and could expand the amount of credit outstanding when and as steps are taken to increase their reserves. This can be most readily effected by open market puchases, which have the effect of making funds available to the money market and of making it unnecessary for member banks in general to apply to the Federal Reserve Banks for advances. However, should individual banks still require funds, they may borrow from the Federal Reserve Bank and when they do so its discount rates can be reduced in conformity with a policy of ease, or conversely can be raised if an opposite policy is adopted. But, of course, when the banks are superabundantly supplied with reserve funds from an outside source and therefore have little, if any, occasion to seek additional funds from the Federal Reserve Banks, the discount rate and open market operations, as means of credit regulation, cease to be effective. The purpose of the increase in reserve requirements was, therefore, to offset the effect of gold imports and restore the base upon which normal measures of credit regulation would be effective.

Sterilization of incoming gold was a logical accompaniment of the increase in reserve requirements. As announced by the Secretary of the

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Treasury, accordingly, it became the Treasury's policy, "whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department. This will be accomplished by the sale of additional public-debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction."

The Treasury's purchases of gold pursuant to this policy had the effect of keeping the gold from getting into bank reserves and swelling them to greater volume.

These measures, I repeat - the increase in reserve requirements by the Federal Reserve System and the sterilization of gold by the Treasury - were unusual measures taken to offset an unusual condition, namely, the enormous inflow of capital and gold from abroad. They were outside the category of normal measures of credit regulation. They were related to normal measures of credit regulation in somewhat the same way that reballasting a ship is related to its regular operation. They were measures intended to neutralize the effect of major financial disturbances originating abroad, and to keep the domestic credit situation amenable to the established technique of regulation.

As the Board explained, when it announced the final increases in reserve requirements, the System would be restored by this action to "a position where such reduction or expansion of member bank reserves as may be deemed in the public interest may be effected through open-market operations, a more flexible instrument, better adapted for keeping the reserve position of member banks currently in close adjustment to credit needs."

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At this point perhaps I should briefly restate the process by which open-market operations achieve their purpose. In the first place, as you know, when a bank enlarges the amount of credit it has outstanding, either by additional loans to its customers or by additional purchases of investment securities, its reserves tend to be reduced. Consequently it cannot enlarge the amount of credit it has outstanding unless it has reserves in excess of what it is required to have. On their own initiative banks may procure additional reserve funds either by borrowing or by selling securities. Or the Federal Reserve System on its initiative may supply banks in general with additional reserve funds by open-market purchases of investment securities; for as the Federal Reserve Banks pay for the securities they buy, either by check or by credit, the reserves of member banks are increased. Contrariwise, if the Federal Reserve System sells securities, the process of paying for them, whether they are purchased by member banks or by the customers of member banks, will reduce the reserves of member banks. Purchases by the System tend to ease the money market, sales by the System tend to tighten it.

In August and September of this year a further step in pursuance of the System's established policy was taken when the Federal Reserve Bank rediscount rates were lowered. In approving the first of these changes the Board stated that its "approval was based upon the view that the reduction of discount rates at this time would assist in carrying out the System's policy of monetary ease and make Federal Reserve Bank credit readily available to member banks for the accommodation of commerce, business and agriculture, without encouraging member banks to borrow

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outside of their districts or to liquidate their portfolios in order to be in a position to meet the needs of present or prospective borrowers."

The Board went on to say "The reduction in discount rates, which have had little or no practical effect during the period when excess reserves were abnormally large and widely distributed throughout the System, brings the rates into closer relation with the interest rate structure generally prevailing, and affords to member banks the benefit of rates, on advances made by the Federal Reserve Bank, which are in line with those available in the money market. During the extended period when excess reserves of the banking system were between two and three billions of dollars, the occasion did not arise except in rare instances for member banks to borrow from the Federal Reserve Banks, and the discount rates were accordingly inoperative as a practical matter.

"As a result of the continued progress of the recovery movement, demands of agriculture, industry and commerce for bank accommodation have steadily increased and at the present time are augmented by seasonal requirements, particularly with relation to crop movements.

"It is the Board's view, therefore, that at this time the Federal Reserve System can best discharge its public responsibility and promote the continuance of recovery by making it possible for member banks to obtain accommodation from Federal Reserve Banks at rates which will encourage them to employ their funds to meet the needs of agriculture, industry and commerce."

Later in September, the Federal Open Market Committee announced that it had authorized purchase in the open market from time to time

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of "sufficient amounts of short-term United States Government obligations to provide funds to meet seasonal withdrawals of currency from the banks and other seasonal requirements." It said further:

"Reduction of the additional holdings in the open market portfolio is contemplated when the seasonal influences are reversed or other circumstances make their retention unnecessary.

"The purpose of this action is to maintain at member banks an aggregate volume of excess reserves adequate for the continuation of the System's policy of monetary ease for the furtherance of economic recovery."

At the same time, the Committee announced that at the request of the Board of Governors the Secretary of the Treasury had agreed to release - that is, to desterilize - approximately $300,000,000 of gold from the Treasury's inactive account. Accordingly, the Treasury was credited with that amount on the books of the Federal Reserve Banks which in the course of regular Treasury disbursements found its way into the reserve accounts of member banks and increased their available funds correspondingly. This was an effective means of utilizing our monetary measures to maintain the policy of ease. The Committee's statement made at the time pointed out that:

"This action is in conformity with the usual policy of the System to facilitate the financing of orderly marketing of crops and of autumn trade. Together with the recent reductions of discount rates at the several Federal Reserve Banks, it will enable the banks to meet readily any increased seasonal demands for credit and currency and

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contribute to the continuation of easy credit conditions."

As stated in the October Federal Reserve Bulletin, this action toward augmentation of member bank reserves was taken in order to anticipate the usual seasonal needs of member banks for currency and credit. The action of the System in bringing about an increase of available funds put banks in a still easier position to meet seasonal needs as well as increasing demands for bank credit. It was an exercise of credit technique under normal and typical conditions.

Before passing on to the latest measure of credit technique taken by the System, I want to mention a recent change in the regulations governing discounts by the Federal Reserve Banks. This change was effected by the issuance of Regulation A in revised form effective October 1. Its significance lies in the fact that in determining the eligibility of paper for discount, the form of the obligations to be discounted is considered of less importance than it used to be. Originally the privilege of rediscount at the Federal Reserve Banks had been restricted to relatively short-term paper arising from certain commercial and agricultural activities. As you know, the amount of such paper has tended in recent years to constitute a smaller and smaller proportion of the total amount of paper available to banks. To the extent that banks were dependent on such paper for discounts, the decrease in its amount meant in effect a curtailment of the power of the Federal Reserve Banks to extend credit. The Banking Act of 1933 and the Banking Act of 1935 both enlarged the classification of paper upon which individual member banks might procure funds from the Federal Reserve Banks for the replenishment of

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their reserves, and Regulation A as recently issued by the Board carries out the purpose of these changes in the law.

The new Regulation had been in preparation for a long period and the time of its issuance had no special bearing with respect to the current situation. It was rather a longer range measure. Moreover, its issuance was not of course a measure of credit regulation, like open market operations or changes in the discount rate, but a liberalization of the conditions under which the regular means of credit regulation are exercised.

The latest measure of credit regulation taken by the System was the change in margin requirements effective the first of this month. The power to fix margin requirements is, as you know, a new and special responsibility imposed upon the Board by the Securities Exchange Act which Congress adopted in 1934. Its effect is not general upon the whole field of credit. In this respect, it differs from other central banking powers. It is directed exclusively at the use of credit advanced by brokers, dealers and by banks for the purpose of purchasing or carrying registered securities. Theoretically, margin requirements can be raised when it appears advisable to restrain speculative use of credit and they can be lowered when it appears advisable to relax the restraints.

Because of the special nature of this particular power of credit regulation, it can be exercised independently of other measures by which the credit situation is influenced. Thus it is possible to pursue a restraining policy with respect to the use of credit for securities' speculation at the same time that an easy money policy is being

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pursued with respect to the use of credit for commerce, industry and agriculture. By its most recent action the Board eased credit conditions so far as securities' trading is concerned. It happens that this policy of ease in the special field of stock market trading coincided with the policy of ease which the Board has all along pursued in the general field of credit, but conditions do not always call for a parallel policy by any means. The peculiar character of the power to fix margin requirements is that it makes it possible to influence credit conditions in a particular field independently, if necessary, of what is done in other fields.

It is evident that the exercise of Federal Reserve functions, like those of any other organization, involves sometimes merely the use of certain tools according to accepted procedure, and sometimes a change in the tools themselves or in the conditions under which they are to be used. Open market operations and changes in discount rates are the customary tools regularly employed in performance of Federal Reserve System functions. They are practicable, flexible and tested tools, which can be used to ease money conditions at one time and to tighten them at another. They can be made to accomplish their purposes without shock - without violent and painful adjustments. They can be applied gradually so that their effect is barely perceptible. If necessary, they can be applied vigorously and sweepingly.

It almost goes without saying that the powers which I have been describing can only be exercised with the highest sense of public responsibility. The central banking authorities must formulate and

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execute their policies with a well-informed sense of the effect upon the country as a whole. Conflicting interests are present on every hand. Every action taken is certain to be approved by some and disapproved by others. Every step taken is sure to be subjected to the scrutiny of acute and well-informed critics. That is as it should be. It is the normal condition under which governmental institutions function in a democracy, and most of us believe it is on the whole the best condition.

Naturally enough the better you as specialists in the field of credit understand the responsibilities of the Federal Reserve System and the manner in which we try to meet them - and on the other hand, the better we of the Federal Reserve System understand your problems and the conditions under which you try to meet them - the more effectively will our credit machinery function for the common welfare of the country.

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R-114

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 20, 1937.

SUBJECT: Monthly Report of Bank and
Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of October in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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R-114-a

November 16, 1937.

TO The Board

FROM Mr. Hammond, Division of Bank Operations.

SUBJECT: Summary of Bank Relations Reports.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of October and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The attitude toward the Federal Reserve System

Banks, especially in the west, continue to express dissatisfaction with the present reserve requirements, which have either made borrowing necessary or at least have interfered with maintenance of the customary balances with correspondents. At the same time there is evidence of some feeling that membership in the Federal Reserve System will become more desirable if there is a prolonged business recession.

Banking conditions

Despite the feeling about reserve requirements, there is also continued complaint about idle funds and inadequate earnings. Service charges and special types of loans are being developed. The pressure to charge exchange seems to be as strong as ever or even to be increasing. Banks express concern over the prospects for their bond portfolios.

General economic conditions

With the exception of certain regions in the west and in the south, concern as to business trends seems to prevail. In the excepted regions the abundance of the crops is apparently felt to mitigate the effect of price declines. In manufacturing regions there are reports of cancelled orders, shut-downs, and increased unemployment. Both New York and Chicago report mention by bankers of continued or increased hoarding.

Excerpts from the reports follow: (The reports themselves are attached to the original hereof).

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Boston

Eight country banks located in Massachusetts and within a radius of fifty miles of Boston, and five member banks, one non-member bank and the Receiver for five closed State banks in southern Connecticut, were visited during the month of October.

In several of these communities manufacturing concerns making shoes, furniture and textiles are located, and bankers interviewed stated that plant operations are being curtailed and payrolls reduced in line with a rapid decline in the volume of new orders for the commodities manufactured at these plants. The outlook of those who offered any expressions as to the future of business in their communities was decidedly pessimistic.

With one exception the banks reported a recent decline in the demands made upon them for credit. At two or three of the banks comment was made upon the increase in the number of transactions conducted for customers involving the purchase of listed stocks immediately following the recent market decline. In a few instances new loans were made to customers for this purpose, and in other instances the customers drew down their savings accounts. While the total withdrawn from savings accounts was negligible insofar as concerns the member banks visited and was not regarded as being substantial as to all banks in the communities, the movement was being closely watched and speculated on at the time by the bankers. Such stock transactions as the member banks handled for their customers were said to be mostly in high-grade, non-speculative issues.

No unfavorable comments were heard with respect to the policies of the administration of the System or of the operations of the Federal Reserve Bank of Boston, with the exception of an objection voiced at one of the smaller banks to the present reserve requirements.

New York

Greene, Madison, Otsego, and Schoharie Counties, New York

Demand for accommodation generally continues light although officers of nine banks characterized it as being fair to good. Loan and discount totals are for the most part lower, one bank reporting its list to be at the lowest level reached during the past ten to twelve years. The interest rate charged is customarily 6 percent, although a few banks grant a lower rate to borrowers on prime collateral, and the majority make concessions in the case of loans to municipalities. Only one bank reported an average loan rate as low as 5 percent. Bank executives with only two exceptions, stated that they found no objectionable competition in the lending activities of the Production Credit Association. Some are referring prospective borrowers to this agency - borrowers to whom they do not feel justified in extending credit because of the risk involved.

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New York continued

Oswego and Wayne Counties, New York

Only six bank officers stated that their bond portfolios show a material appreciation, and all expressed a great deal of alarm over the recent action of the stock and bond markets. This subject appeared to be uppermost in their minds and several remarked that, even though few of their customers were actively interested in the purchase or sale of securities, these markets nevertheless have a very profound effect on business locally. One officer added that he had already noted instances of hoarding for the first time since 1933.

Demand for accommodation continues to be fairly good, only four banks reporting any substantial decrease in loan and discount totals. The rate is usually 6 percent, although two or three of the larger banks grant loans secured by prime collateral at $5\frac{1}{2}$, 5, and even as low as 4 percent. The majority, however, make an exception only in the case of loans to municipalities and school districts.

The lending activities of the Production Credit Association were discussed with practically all of the bank officers interviewed and none of them voiced any great objection to its activities; in fact, a number expressed their approval, feeling that the association is assisting farmers who would not be able to secure accommodation from the ordinary sources.

Middlesex County, New Jersey

The majority of bankers interviewed, including those in the industrial centers of New Brunswick and Perth Amboy, report a light demand for commercial credit. Earnings continue to be a problem with most of the banks in the county, loans and discounts being only a portion of the total of a few years ago, a substantial part of their bond accounts consisting of United States government issues at low yields and a fairly sizable amount of cash being carried as uninvested funds. However, an officer of one bank (deposits $1,600,000) pointed out that earnings for the current six months will be the best for any like period since the bank was organized in 1923. This institution has made considerable effort to obtain mortgages insured under provisions of Title II of the National Housing Act and has made contacts with two mortgage financing companies, to secure applications, the bank paying these concerns a moderate commission for their services. The total of such mortgages already granted plus commitments received from the Federal Housing Administration is $412,000. This total covers about 95 separate properties, approximately half of which represents new construction.

An officer of one National bank having trust powers (deposits of about $1,000,000) remarked that he is not accepting any more trust business and that he plans to retire from this field as soon as possible as he thinks trust business cannot be handled properly or profitably by a bank of this size.

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New York continued

(New York reports that in the area covered by its October visitations 79 banks had issued preferred stock or debentures, and that of these 7 had subsequently retired their entire issues and 33 had so far effected no retirement.)

Philadelphia

Information obtained by our representatives indicates that there is a noticeable decline in business activity within the area covered by this report. The reasons given are: excess inventories, seasonal demands of the various businesses, strikes in other industries, and an uncertainty as to the future resulting in the adoption of a "go slow" attitude on the part of some manufacturers and business men.

Agricultural conditions are considered fair, although the tobacco crop was poor this year due to heavy damage caused by rust. The tomato crop was ruined by rain and the prices paid for potatoes were said to be insufficient to cover the cost of production. Grain and other stock feeds yielded well and provided about the only money crops produced in this section this year.

Some complaint was made because the prices of food and other necessities are advancing more rapidly than wages. In several communities there have been building programs tending to relieve housing shortages but it was stated that recently there has been a noticeable diminution in the willingness of people to purchase homes. This has been attributed to the natural conservatism of the residents of this area and their unwillingness to invest while uncertainty created by the recent decline in the securities market exists. Nearly all of the communities report that available houses are few and that rents are increasing. The fact that in some communities there is still some closed bank real estate available at low prices, is said to have a bad influence upon the regular market and to restrain a more ambitious building program.

Several bankers stated that they had not experienced much difficulty with collateral loans during the recent decline in the securities market because they did not permit margins to shrink too much before making a call upon the borrower. The executive officer of one institution with deposits of about $11,000,000 stated that the margin requirements of the Board of Governors was one of the best things ever promulgated and something which should have been in existence years ago. (This statement was made before the recent changes in margin requirements.) He intimated that he did not favor reducing the requirements and stated that none of the loans made under this regulation caused his bank any concern during this recent decline.

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Cleveland

The attention of banks in this district centers largely in the securities markets. Portfolios of banks generally were acquired at higher levels, and existing paper losses are contemplated with misgivings. There is continued evidence of a gradual shifting from long-term to short-term investments. Many banks which have not yet made this shift are merely awaiting a favorable market opportunity to do so.

Notwithstanding a substantial recession in major lines of business in this district, the total volume of loans extended by member banks shows no decline. This is explained partly by the fact that banks are increasingly active in the field of installment finance paper, and of mortgage loans, particularly in farming areas.

The current business recession has affected the basic industries of this district more than it has the smaller miscellaneous manufacturing lines. In some instances, such as the practical suspension of operations of a large steel unit at Lorain, Ohio, a large amount of unemployment has been created, but has not yet lasted long enough to cause noticeable distress or to result in substantial savings withdrawals.

Kentucky bankers are regarding with some apprehension the payment of loans which will occur when the tobacco markets open in December, since it will swell the present volume of unemployed funds. Banks find it difficult to loan funds locally and present conditions in the securities markets are a serious drawback to the investment of deposits.

Kentucky bankers continue to complain of the activity of Government lending agencies, which they represent are taking from the banks desirable loans which the banks would gladly make.

During the last few days of October two nonmember banks in our Kentucky territory, by voluntary action of the boards of directors, were placed in the hands of the State Department for liquidation.

A few scattered complaints have been received from member banks in sections where certificates of deposit are preferred by depositors to savings accounts, that substantial deposit accounts are being lost to nonmember insured banks by reason of the less restrictive provisions of Regulation IV of the Federal Deposit Insurance Corporation as compared with the provisions of Regulation Q respecting payment before maturity.

Richmond

In the Fifth Federal Reserve District the total district production of cotton is 1,610,000 bales, which is 11.3 percent above the 1936 crop, compared with the national increase of 41.7 percent. With the larger cotton crop and the low price, it is estimated that the income of our district from the production and sale of cotton this year will be less than in 1936; but this loss in purchasing power will we believe be fully made up by the increased income over 1936 of the production and sale of tobacco.

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Richmond continued

The tobacco crop is a better quality than last year, with prices slightly higher as a general rule.

The situation in the cotton textile field is very blue. The information from best available sources is that textile plants in our district are operating slightly under 60 percent of capacity, but this applies to the larger and more efficient units. The smaller units not so efficiently managed probably average operations of approximately 50 percent capacity. An outstanding feature of the recent developments in textiles has been the freedom with which large and responsible national concerns, as well as others, have cancelled orders. Textile people are bewildered and report little evidence of a convincing nature at hand to support a contention that immediate improvement may be expected.

It is reported that furniture manufacturing and the furniture business generally are suffering on account of the slowing down of installment buying. Manufacturing concerns have large inventories on hand. The wholesale dealers are in somewhat the same state. Some furniture factories have completely closed down, with only shipping rooms operating, completing old orders. Others, manufacturing special types of furniture, are operating on short time. There is also the threat of labor difficulties.

Newport News, where the Newport News Shipbuilding and Dry Dock Company is located, is a bright spot in our district. The company is working full time and has contracts on hand, not including repair work, amounting to approximately 35 million dollars. It employs 6,100 people, with an annual payroll of approximately 10 million dollars. The company has recently secured a contract to build a boat for the United States Lines Company to take the place of the Leviathan, and as this contract progresses the company will take on from 1,500 to 2,000 additional employees.

Generally speaking, it had been hoped that the increase in unemployment following the marketing of agricultural products, or their preparation for market, would be in large measure offset by an increase in employment in stores and manufacturing concerns in preparation for the coming holiday season; but with the textile mills working part time and the general state of affairs in business, including industry and agriculture in the term, it is likely that there will be an increase in unemployment.

Atlanta

New Orleans

Visits were made to the four member banks in New Orleans and the officers of these banks reported that business in New Orleans and its adjacent territory is considered good, there being some increased demand for funds from customers. The crops of cotton, rice and sugar cane in

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Atlanta continued

this territory are bountiful and, while prices are low, the general impression is that aggregate returns from these crops will probably equal those received for the year 1936.

Southeast Alabama

This is the crop moving season in this section and the officers and employees of the eleven banks visited were found to be very busy. Southeast Alabama has produced large crops of cotton and peanuts this year, although rains just prior to the harvesting season reduced the grade of cotton considerably and, as a consequence, a substantial portion of this crop will be below "middling". It is reported that staple length is excellent. Practically all of the bankers in this particular section feel that due to the recent reduction in the price of cotton a large portion of the crop will be held in the form of collateral to Commodity Credit Corporation notes, particularly since the Corporation has agreed to accept lower grades than heretofore. It wqs reported that this section of the State has produced an unusually large peanut crop and that the local bankers are of the opinion that this will be a "life saver" during the months following this season of low priced cotton. Only one banker interviewed voiced a desire to see reserve requirements reduced at this time.

Northeast Georgia

Practically all farmers in this section are selling cotton at the current price. However, the majority of the farmers, according to information received, will undoubtedly agree to reduce acreage and comply with the requirements of the Department of Agriculture in order to obtain the maximum returns from this year's crop.

Interest rates on time and savings deposits are not uniform. Some of the smaller bankers in this rural section are not accepting interest bearing deposits while other banks are paying the maximum permitted by the regulation. In practically every instance the banker interviewed advised that he had enjoyed a good demand for loans during the current year and registered no complaint regarding the Governmental loan agencies.

East Tennessee

The banks in this section are in better condition than for several years past. The principal sources of revenue are tobacco, live stock raising and truck farming. Weather conditions have been exceedingly favorable for the growing of tobacco and grain crops. The live stock market, while not at its peak, held up well and prices obtained have, in the main, been satisfactory. The tobacco crop for this section will not be as good in

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Atlanta continued

value as last year on account of a wet curing season, but the poundage will be approximately 20 percent more than for 1936. It is the opinion of the bankers that the price will be somewhat less than last year but it is believed the increased yield will offset the reduction in price.

The attitude of the bankers in this section in regard to business conditions in general is exceedingly optimistic. Most of them have "cleaned house" and current earnings are as good as, or better than, last year. A substantial portion of the 1936 earnings consisted of bond profits but this year's earnings are of a type that the bankers may reasonably expect to be recurring.

Chicago

Calls on member banks during the month of October were made principally in the State of Wisconsin. Three of the banks visited were recently admitted to the System.

Practically every bank reported an increase in deposits, while two reported a slight increase in loans. Three banks (not located in the larger cities) told us that they were lending to some of their smaller correspondent country banks. One bank located in a small resort town indicated that it might be necessary, due to expected seasonal decline in deposits, for it to borrow from the Federal Reserve bank between now and the first of the year, at which time deposits would increase because of tax collections.

One bank in a manufacturing town stated that their loans had decreased from a point several years ago of $5,000,000 to approximately $1,000,000. A thorough canvass of former borrowers resulted in obtaining one temporary loan. Deposits in this bank are growing steadily, notwithstanding which the banker interviewed stated that he was quite sure that considerable amounts of currency were being placed in safety deposit boxes. He further stated that his bank had not sold a Government Bond to a customer in several months, while in the past such sales were not infrequent.

The bankers reported in some instances that their local merchants had rather heavy inventories, but seemed to think there were no distressed situations; that while the present inventory could probably be replaced at lower prices, the merchants would be able to clear their shelves in time. In two or three places it was reported that the chain stores had reduced their prices on several hundred items. Generally, business was reported to have slowed down during the last thirty or sixty days. In one town a large manufacturing concern that until recently had been operating seven days a week has within the last two weeks reduced its working time to four days a week due to lack of orders.

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Chicago continued

Several nonmember banks were visited. Two of these were considering the possibility of converting into National banks. Two indicated that they wanted to reduce certain lines now extended to their customers, and another advised that it would be necessary to further reduce the amount invested in building before applying for membership.

One member banker stated that he had not become reconciled to the increased reserve requirements, saying that the amount of reserve now carried at the Federal Reserve bank made it difficult to maintain a comfortable working balance with his correspondent banks.

St. Louis

Throughout Missouri there continues to be a pronounced scarcity of live stock for feeding, which will force considerable corn on the market as many farmers are financially unable to hold their grain for higher prices. Should a reasonable Government loan on corn be made available, considerable benefit would result. In all parts of the State there is an ample supply of roughage of all kinds for the winter. The abundance of vegetables and other edibles raised on the farm has resulted in the storing and canning of supplies to such an extent that living costs will be materially reduced for farm residents.

Sowing of fall wheat has been completed and the acreage will compare favorably with that devoted to wheat in the fall of 1936. The cotton crop in Missouri will be late, picking having been retarded by much rain.

Interest in the oil boom in Illinois continues unabated and during the month several additional wells were brought in over a comparatively wide area, indicating that the field is not a restricted one. Promising drilling operations now in progress have given a decided impetus to leasing of additional oil rights on the part of several major oil companies.

Banks throughout Missouri are enjoying a slightly better local demand for loans created largely because farmers desire to purchase pigs and yearling calves for feeding purposes. Such advances, however, are not being made to an extent which would necessitate borrowing by the banks from either their correspondents or the Federal Reserve Bank. During the past year the number of banks that have inaugurated service charges has greatly increased. A number of smaller banks have derived enough income from this source to show an operating profit that is very encouraging. There is some uneasiness concerning the decline in Government securities, but so far as could be determined no bank is inclined to actually dispose of any holdings. On the other hand, some hesitation is manifested regarding possible further purchases.

It appears that the Government cotton loan will be used rather extensively in the strictly cotton sections of Tennessee. Several banks are taking all such available loans to hold as investments.

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St. Louis continued

A number of Missouri bankers commented upon the impairment of the par collection system. They are disturbed by the increasing number of non-par points, particularly in western and northwestern States. While a number of banks reported increased use of check collection facilities, because of service charges by correspondents, it was stated that the service would be used more freely except for the difficulty of remembering which are and which are not par points. In this connection, our officers visit any bank which notifies us of its intention to withdraw from the par list. Sometimes the bank decides to continue to remit at par. Such a visit was made during the month, with favorable results. We understand that one of the reasons why a certain National bank converted into a State non-member bank was in order to obtain revenue from exchange charges.

Increased use of custody, currency shipments, wire transfer, and purchase and sale of Government bonds services were noted, and a number of inquiries were made about these services with the idea of possible use in the future.

Several banks inquired about the discount facility. The feeling was expressed that the broadened lending powers of the Reserve bank will have a tendency to make the System more popular.

Minneapolis

Between October 25 and 29 inclusive five group meetings of South Dakota bankers were attended. The meetings were well attended by bankers from practically every section of South Dakota and by representatives of banks in the larger out-of-state cities of Chicago, Minneapolis, St. Paul, and Sioux City. With some variations the programs followed the same general form. Much of the time at each meeting was spent in discussion of the new uniform schedule of service charges and the agricultural program in the State of South Dakota. (In this connection it is noted that only two banks of those represented at the meetings do not collect service charges for the reason that they believe many of their customers cannot afford to pay them.)

The Reserve Bank representatives were very kindly received at all of the meetings and at the banks visited. Few criticisms of the Federal Reserve System in general or of the Federal Reserve Bank of Minneapolis in particular were noted except on the question of exchange.

One banker expressed the belief that a small State bank has the right to operate even though exchange charges constitute the revenue that really keeps the bank open. Private discussion indicated that many nonmember banks have not actually rediscounted with their correspondents at the moment, but are contemplating doing so in the very near future. An officer of a bank in Sioux City, Iowa, said that his institution has had discounts recently which were large in dollars and in number of banks making them.

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Kansas City

Under present conditions there is no great urge for eligible state banks to become members, but, even so, visits at such banks reveal that there is interest in membership and that in a number of cases directors of banks have authorized negotiations to be opened to this end. It is significant that some eligible state banks are thinking of membership in connection with the possibility of a serious business depression. They realize that membership gives a certain amount of protection in that credit accommodation would be assured. A number of state banks, however, that have decided on membership, feel that it is more desirable to give up their state charters and become national banks.

There is still considerable discussion as to reserve requirements. Country bankers, especially, feel that 14 percent is too high to permit the maintenance of satisfactory relations with their city correspondents. A decrease of 12 percent since a year ago in interbank deposits of reporting member banks is due, no doubt, in part at least to higher reserves. Small banks value these connections with city correspondents in order that loans for large borrowers or loans they do not wish to handle may be taken care of.

Visits with bankers in Nebraska, in sections of that state where a fair amount of corn is being raised, disclose the fact that banks are making a rather satisfactory amount of loans for feeding purposes. Some of these banks are also expecting to borrow in modest amounts. In sections of Nebraska where there is corn, bankers report that property statements show a good increase in the number of hogs. In other sections of that state, where the corn crop was a failure this year, bankers inform us that very little feeding is being done in their communities.

Bankers report that the let-down experienced in other parts of the country has not as yet made itself felt in Wyoming. Cattle prices are the highest they have been since 1929. Following a number of years of drouth, the ranges in Wyoming are generally in excellent condition. As a result, live stock is also in good condition, lambs carrying the best weight in years. Sheep prices are up moderately and wool is bringing the best price in years. Favorable prices, and the desire on the part of ranchers to pay the debts contracted in other years, are causing all classes of cattle to be sold. It is reported that banks and other lending agencies are encouraging this liquidation.

The subject most commonly discussed at the present time by Oklahoma bankers is that of cotton loans. This state has nearly a normal cotton crop, one that is three times as large as the poor crop of last year. The low price of cotton is creating much interest in cotton loans, but judging from conversations with bankers there are many technical questions in connection with these loans that are far from being understood.

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Dallas

West Texas

One of the largest cotton crops in the history of West Texas was in process of being harvested in October. Increased acreage and ideal weather conditions during the growing season account for a bumper crop that has literally swamped ginning, compress and storage facilities.

Local bankers and business men report that, notwithstanding the severe autumn decline which carried the price of cotton sharply below the level of earlier expectations, returns from the crop, including funds received under the government's financing program, are producing a marked stimulation of general business activity and a distinct feeling of optimism and satisfaction among the producers. Although this situation is surprising in view of the drastic decline in the price of the product as compared to the previous year's price level, it may be accounted for in part by the relatively low costs of cotton production prevailing in West Texas, where, in contrast with other cotton producing areas of the Eleventh District, the tractor has largely displaced man-power as a means of cultivation, and production costs are correspondingly lower.

The extraordinary volume and rapid gathering of the crop have created an acute situation that has reached distress proportions at many points. Ginning and compress facilities are so heavily over-taxed that gins and presses are running night and day, with but little prospects for relieving the congestion in the near future. New warehouses are being hastily constructed. Representatives of the Commodity Credit Corporation have found it necessary to arrange for the reconcentration of from 400,000 to 500,000 bales at Houston and Galveston.

The needs of the producers have placed a heavy strain upon the banks of West Texas. In view of the price situation producers are taking heavy recourse to the relief offered by the government's cotton financing program. The sudden and voluminous demand for its commodity loans have made it difficult to consummate the loans without considerable delays in connection with the process of warehousing and grading the staple and sending the loan applications through the necessary channels of analysis and approval. In this emergency the local banks are according the producers the fullest measure of financial and clerical assistance. Many of the commodity loans are being made by the banks themselves.

The Federal Reserve Bank of Dallas, in addition to assisting the movement of the crop through its regular loan facilities, has offered to make advances to member banks under Section 10B of the Act, secured by the notes of producers in favor of the Commodity Credit Corporation pending completion of papers involved in the C. C. C. loans.

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San Francisco

Seattle Branch

Information received during visits to the Wenatchee-Okanogan District, October 5 to 7, inclusive, was that the price of apples was not entirely satisfactory to the growers and that there was a tendency for the producers to withhold sales. Last year a heavy frost visited this section during the picking season and caused a great deal of damage. The producers were therefore picking the apples a little earlier than usual and expected to be through shortly after the first of November.

There was a large crop of wheat in this district this year, but again the reduction of price since the early contracts were made at a dollar has caused farmers to withhold sales.

Livestock was reported to be in excellent condition with the usual amount of sales expected for the season.

Conditions in Aberdeen and Hoquiam, visited on October 27, with respect to lumber and lumber products, are very unsatisfactory. The Oriental demand for lumber, except for a few small shipments to Japan, is negligible, and we were informed that the California market is very poor. On account of lack of orders, most of the mills are down, the exceptions being one large mill in Hoquiam and two smaller mills in Aberdeen.

The plywood plants and one pulp mill are in operation. Unless conditions improve there will undoubtedly be considerable unemployment and local business houses will feel the effects.

Conditions agriculturally in Grays Harbor County have been satisfactory this year. There has been a considerable increase in acreage planted to peas for canning and freezing purposes. The farmers have also been successful in the raising of various types of seed, particularly cabbage, clover and turnip.

A large contract has been entered into by one of the local logging companies with the United States Government for the purpose of logging a very valuable stand of timber in the forest reserve area. It is expected that logging will commence early in December and will create employment for a large number of men.

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PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

OCTOBER, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	13	1	14	2	#	None	—
New York	113	30	143	9	6,605	4	380
Philadelphia	47	13	60	4	4,238	2	158
Cleveland	97	81	178	5	1,615	5	540
Richmond	38	60	98	4	#	None	—
Atlanta	39	41	80	6	710	5	525
Chicago	10	11	21	4	530*	2	90
St. Louis	32	17	49	5	5,725	None	—
Minneapolis	23	9	32	9	518**	2	80
Kansas City	4	1	5	6	1,797	2	235
Dallas	3	—	3	3	2,650*	1	150
San Francisco	28	9	37	16	980	None	—

#Attendance not reported.
*Attendance at 1 not reported.
**Attendance at 2 not reported.

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R-115

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 20, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZJYN" Treasury Bills to be dated November 24, 1937, and to mature March 18, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZJUG" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-116

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1937

SUBJECT: Holidays during December, 1937

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the Havana Agency of the Federal Reserve Bank of Atlanta will be closed on Tuesday, December 7 in observance of Cuban Memorial Day.

On December 25 the offices of the Board and all Federal Reserve banks and branches will be closed.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Thursday, November 25, 1937.

The following summary of general business and financial conditions in the United States, based upon statistics for October and the first three weeks of November, will appear in the December issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Volume of industrial production showed a further sharp decrease in October and the first three weeks of November, and there was a reduction in employment. Commodity prices continued to decline. Distribution of commodities to consumers was maintained at the level of other recent months.

Production and employment

In October the Board's seasonally adjusted index of industrial production was 103 percent of the 1923-1925 average as compared with 111 percent in September and an average of 116 percent in the first eight months of this year. There was a marked curtailment of activity in the durable goods industries. Output of steel ingots, which had shown a steady decline since August, was at an average rate of 59 percent of capacity in October and by the third week in November the rate had declined to 36 percent. Automobile production increased considerably in October as most manufacturers began assembly of 1938 model cars. In the first three weeks of November output of

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automobiles showed little change from the level reached at the end of October, with assemblies by one leading manufacturer continuing in exceptionally small volume. Production of lumber and of plate glass declined further in October. In the nondurable goods industries, where output had been declining since the spring of this year, there was a further decrease in October. Cotton consumption showed a sharp reduction and activity at woolen mills and shoe factories continued to decline. There was an increase in output at sugar refineries, where activity had been at a low level in September. In most other lines changes in output were largely seasonal. Mineral production continued at about the level reached at the close of 1936 and maintained throughout this year.

Value of construction contracts awarded in October and the first half of November was smaller than in the preceding six weeks, according to figures of the F. W. Dodge Corporation. The decline was chiefly in private nonresidential construction.

Factory employment declined substantially in October and payrolls showed little change, although an increase is usual at this season. Declines in the number employed were reported by factories producing steel, machinery, lumber, and textiles, and in many smaller industries. There was a seasonal increase in employment at automobile factories. Employment and payrolls increased seasonally at mines and at establishments engaged in wholesale and retail trade.

Distribution

Sales at department stores and mail order sales increased seasonally in October. Throughout the year sales at department stores

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have been sustained, with seasonal fluctuations, and the Board's adjusted index of these sales has shown little change.

Freight-car loadings declined in October and the first half of November, reflecting smaller shipments of forest products, ore, and miscellaneous freight.

Commodity prices

Prices of industrial materials, particularly nonferrous metals, steel scrap, rubber, and hides, declined further from the middle of October to the third week of November, and there were some decreases in the prices of finished industrial products. Livestock and meat prices declined substantially and coffee prices dropped sharply following the announcement by Brazil of modification of its control policy.

Bank credit

During the first half of November the Federal Reserve banks purchased $28,525,000 of United States Government securities, in accordance with the policy adopted in September to provide additional reserves for meeting seasonal currency and other requirements. From the middle of October to November 17, excess reserves of member banks increased from about $1,000,000,000 to $1,100,000,000, reflecting the Federal Reserve security purchases and a considerable decline in required reserves at member banks in New York City, caused partly by a reduction in demand deposits arising from a liquidation of brokers' loans.

Loans to brokers and dealers reported by banks in leading cities declined by $250,000,000 during the four weeks ending November

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17. Commercial loans, following a steady increase for several months, declined after the middle of October. Member banks in New York City increased their holdings of United States Government securities by over $150,000,000 while banks outside New York City showed a further reduction. Deposits continued to show moderate reductions.

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R-118

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 29, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZKAS" Treasury Bills to be dated December 1, 1937, and to mature March 18, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZJYN" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-119

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 3, 1937.

SUBJECT: Complimentary Copies of Federal Reserve Bulletin for State Bank Examiners.

Dear Sir:

In accordance with its practice in recent years, the Board of Governors of the Federal Reserve System will send to State bank examiners upon request a complimentary copy of each issue of the Federal Reserve Bulletin published in 1938. In this connection, it will be appreciated if you will submit as soon as possible the names and addresses of all State bank examiners in your district who desire to avail themselves of this service.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS (Except Chicago)

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Sunday, December 5, 1937.

December 4, 1937.

The Board of Governors of the Federal Reserve System adopted today, effective January 1, 1938, a general revision of Regulation T with a view to clarifying and simplifying this regulation, which relates to the extension and maintenance of credit by brokers, dealers and members of national securities exchanges. The principal changes made by the revision are technical. The revised regulation makes no change in the level of margin requirements and contains no provisions requiring liquidation of outstanding commitments or reduction of outstanding loans.

The Board also amended, effective immediately, the existing regulation so that a broker will have the option of separating a customer's transactions in commodity futures from the customer's margin account in securities pending the taking effect on January 1, 1938, of the revised regulation which requires a mandatory separation of such transactions.

The revised regulation liberalizes requirements affecting so-called restricted accounts by providing that in the case of sale of registered securities in such accounts, customers may withdraw, under specified conditions, 40% of the proceeds of such sales. It further liberalizes requirements affecting such accounts by providing that a customer may make a deposit which may be placed in a "special miscellaneous account" instead of being absorbed into the so-called restricted account.

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The revision also incorporates rules prescribing margin requirements for dealings in securities on a "when issued" basis. These requirements agree substantially with those adopted by the principal national securities exchanges in conformity with certain rules of the Securities and Exchange Commission.

The revision also clarifies provisions relating to transactions in special cash accounts by providing that the 7-day period within which the broker must obtain settlement from the customer for a purchase of securities shall date in the typical case from the time of the purchase. Provision continues to be made for extending the period in exceptional cases.

The revised regulation is based on the tentative draft that was submitted last July for comment to all the Federal Reserve banks and the national securities exchanges. A copy of the revised regulation, the new supplement, and the temporary amendment to the existing regulation are attached.

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R-121

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 4, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZKEY" - Treasury Bills to be dated December 8, 1937, and to mature March 19, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZKAS" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-122

December 4, 1937

Dear Sir:

Referring to the Board's letter B-1186 of January 5, 1937, following is a statement of changes during November in the list of nonmember banks that have filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Delete the "Farmers Deposit Bank", Perryville, Kentucky, from page 2 of the list and add it to page 5 under the heading relating to banks no longer in operation as nonmember banks with the following note:

"(Merged into The Old Bank, Perryville, Kentucky, as of November 2, 1937.)"

Delete "Farmers State Bank of West College Corner, Indiana" (P. O. College Corner, Ohio) from page 1 of the list and add "The Farmers State Bank of West College Corner, Indiana" (P. O. College Corner, Ohio), with the following note:

"(Name changed as of October 25, 1937, from 'Farmers State Bank of West College Corner, Indiana', in which name the agreement was executed.)"

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

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R-123

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 4, 1937.

Dear Mr.

In accordance with the telegram sent you today, there are inclosed herewith six mimeographed copies of revised Regulation T, "Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges".

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

EXTENSION AND MAINTENANCE OF CREDIT
BY BROKERS, DEALERS, AND MEMBERS
OF NATIONAL SECURITIES EXCHANGES

REGULATION T

This regulation as printed herewith
is in the form as revised effective
January 1, 1938

(Seal)

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(Note for inside front cover)

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to a national securities exchange of which the person making the inquiry is a member or the facilities of which are used for his transactions, or, if this be not practicable, the inquiry should be addressed to the Federal Reserve bank of the district in which the inquiry arises. In the event that an official of an exchange desires information as to any such question, he should make inquiry of the Federal Reserve bank of the district in which the exchange is located.

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CONTENTS

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REGULATION T

Revised Effective January 1, 1938.

EXTENSION AND MAINTENANCE OF CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES

SECTION 1. SCOPE OF REGULATION

This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the "Board") pursuant to the Securities Exchange Act of 1934 (hereinafter called the "Act"), particularly sections 7 and 8(a) thereof, and applies to every member of a national securities exchange and to every broker or dealer who transacts a business in securities through the medium of any such member.

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SECTION 2. DEFINITIONS

For the purposes of this regulation, unless the context otherwise requires:

(a) The terms "person", "member", "broker", "dealer", "buy", "purchase", "sale", "sell", "security", and "bank" have the meanings given them in section 3(a) of the Act, pertinent parts of which are printed in the appendix to this regulation.

(b) The term "creditor" means 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.

(c) The term "customer" includes any person, or any group of persons acting jointly, (1) to or for whom a creditor is extending or maintaining any credit, or (2) who, in accordance with the ordinary usage of the trade, would be considered a customer of the creditor.

It includes, in case the creditor is a firm, any partner in the firm who would be considered a customer of the firm if he were not a partner, and includes any joint adventure in which a creditor participates and which would be considered a customer of the creditor if the creditor were not a participant.

(d) The term "registered security" means any security which (1) is registered on a national securities exchange; or (2) in consequence of its having unlisted trading privileges on a national securities exchange is deemed, under the provisions of section 12(f) of the Act, to be registered on a national securities exchange; or (3) is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act only to the extent necessary to render lawful any direct or indirect extension or maintenance of credit on such security or any direct or indirect arrangement therefor which would not have been unlawful if such security had been a security (other than an exempted security) registered on a national securities exchange.

(e) The term "exempted security" has the meaning given it in section 3(a) of the Act except that the term does not include a security which is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act only to the extent described in subdivision (3) of section 2(d) of this regulation.

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SECTION 3. GENERAL ACCOUNTS

(a) Contents of general account. - All financial relations between a creditor and a customer, whether recorded in one record or in more than one record, shall be included in and be deemed to be parts of the customer's general account with the creditor, except that the relations which section 4 permits to be included in any special account provided for by that section may be included in the appropriate special account, and all transactions in commodities for or with any customer shall be included in the special commodity account provided for by sections 4(a) and 4(e).

(b) General rule. - A creditor shall not effect for or with any customer in a general account any transaction which, in combination with the other transactions effected in the account on the same day, creates an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of three full business days following the date of such transaction, the deposit into the account of cash or securities in such amount that the cash deposited plus the maximum loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that no cash or securities need be deposited in the account in connection with a transaction on a previous day and that, in addition, the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess.

Rules for computing the maximum loan value of the securities in a general account and the adjusted debit balance of such an account are provided in sections 3(c) and 3(d), and certain modifications of and exceptions to the general rule stated above are provided in the subsequent subsections of this section and in section 6.

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(c) <u>Maximum loan value and current market value</u>. - The maximum loan value of the securities in a general account is the sum of the maximum loan values of the individual securities in the account, including securities (other than unissued securities) bought for the account but not yet debited thereto, but excluding securities sold for the account whether or not payment has been credited thereto.

Except as otherwise provided in this section 3(c), the maximum loan value of a registered security (other than an exempted security) in a general account shall be such maximum loan value as the Board shall prescribe for general accounts from time to time in the supplement to this regulation, and the maximum loan value of an exempted security shall be as determined by the creditor in good faith. No collateral other than registered securities or exempted securities shall have any loan value in a general account.

A warrant or certificate which evidences only a right to subscribe to or otherwise acquire any security and which expires within ninety days of issuance shall have no loan value in a general account; but, if the account contains, in addition to such warrant or certificate, the security to the holder of which such warrant or certificate has been issued, the current market value of such security (if the security be a registered security) shall, for the purpose of calculating its maximum loan value, be increased by the current market value of such warrant or certificate.

For the <u>current market value</u> of a security throughout the day of its purchase or sale, the creditor shall use its total cost or the net proceeds of its sale, as the case may be, and at any other time shall use the closing sale price of the security on the preceding business day as shown by any regularly published reporting or quotation service. In the absence of any such closing sale price, the creditor may use any reasonable estimate of the market value of such security as of the close of business on such preceding business day.

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(d) Adjusted debit balance. - For the purposes of this regulation, the adjusted debit balance of a general account shall be calculated by taking the sum of the following items:

(1) the net debit balance, if any, of the account;

(2) the total cost of any securities (other than unissued securities) bought for the account but not yet debited thereto;

(3) the current market value of any securities (other than unissued securities) sold short in the account plus, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the margin required for such short sales, except that such amount so prescribed in the supplement need not be included when there are held in the account securities exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into such securities sold short;

(4) the amount of margin specified by section 3(h) for every net commitment in the account in unissued securities, plus all unrealized losses on each commitment in unissued securities and minus all unrealized gains (not exceeding the required margin) on each commitment in unissued securities; and

(5) the amount of any margin customarily required by the creditor in connection with his endorsement or guarantee of any put, call or other option;

and deducting therefrom the sum of the following items:

(6) the net credit balance, if any, of the account; and

(7) the net proceeds of sale of any securities (other than unissued securities) sold for the account but for which payment has not yet been credited thereto.

In case the general account is the account of a partner of the creditor, the account of a joint adventure in which the creditor participates, a guaranteed account, or the account of a customer who has guaranteed the account of another customer, the adjusted debit balance shall be computed according to the foregoing rule and the supplementary rules prescribed in sections 6(a), 6(b), and 6(c).

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(e) Liquidation in lieu of deposit.* - In any case in which the deposit required by section 3(b), or any portion thereof, is not obtained by the creditor within the three-day period specified in that section, securities shall be sold or covering or other liquidating transactions shall be effected in the account, prior to the expiration of such three-day period, in such amount that the resulting decrease in the adjusted debit balance of the account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, any resulting decrease in the maximum loan value of the securities in the account.

(f) Extensions of time. - In exceptional cases, the three-day period specified in section 3(b) may, on application of the creditor, be extended for one or more limited periods commensurate with the circumstances by any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, provided such committee is satisfied that the creditor is acting in good faith in making the application and that the circumstances are in fact exceptional and warrant such action.

(g) Transactions on given day. - For the purposes of section 3(b), the question of whether or not an excess of the adjusted debit balance of a general account over the maximum loan value of the securities in the account is created or increased on a given day shall be determined on the basis of all the transactions in the account on that day exclusive of any deposit of cash, deposit of securities, covering transaction or other liquidation that has been effected on the given day, pursuant to the requirements of section 3(b) or 3(e), in connection with a transaction on a previous day.

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* This requirement relates to the action to be taken when a customer fails to make the deposit required by section 3(b), and it is not intended to countenance on the part of customers the practice commonly known as "free-riding" or "three-day riding", to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and section 7(e) of this regulation.

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(h) Unissued securities. - The amount to be included in the adjusted debit balance of a general account as the margin required for a net long commitment in unissued securities shall be the current market value of the net amount of unissued securities long minus the maximum loan value which such net amount of securities would have if they were issued registered securities held in the account; and the amount to be so included as the margin required for a net short commitment in unissued securities shall be the amount which would be required as margin for the net amount of unissued securities short if such securities were issued securities and were sold short in the account: Provided, That no amount need be included as margin for a net short commitment in unissued securities when there are held in the account securities in respect of which the unissued securities are to be issued, nor for any net position in unissued securities that are exempted securities.

Whenever a creditor, pursuant to a purchase of an unissued security for a customer, receives an issued security which is not a registered or exempted security, the creditor shall treat any payment by him for such issued security as a transaction (other than a withdrawal) which increases the adjusted debit balance of the account by the amount of the payment minus the amount required to be included in the adjusted debit balance of the account, at the time of and in connection with the purchase of the unissued security, as the margin required for such purchase.

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(a) General rule. - Pursuant to this section 4, a creditor may establish for any customer one or more special accounts.

Each such special account shall be recorded separately and shall be confined to the transactions and relations specifically authorized for such account by the appropriate subsection of this section and to transactions and relations incidental to those specifically authorized. An adequate record shall be maintained showing for each such account the full details of all transactions in the account.

A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation. If a customer has with a creditor both a general account and one or more such special accounts, the creditor shall treat each such special account as if the customer had with the creditor no general account.

The only other conditions to which transactions in such special accounts shall be subject under the provisions of this regulation shall be such conditions as are specified in the appropriate subsection of this section and in sections 2, 6 and 7.

(b) Special omnibus account. - In a special omnibus account, a member of a national securities exchange may effect for a customer transactions which are effected in reliance upon a signed statement which the member has accepted from the customer in good faith, and a duplicate original of which has been filed by the member with the secretary of a national securities exchange of which he is a member, that the customer is a broker or dealer who is subject to the provisions of this regulation or has places of business only in foreign countries; and such a special omnibus account shall be subject to all the conditions to which it would be subject if it were a general account except that --

(1) In such a special omnibus account, no securities shall have loan value and no short sales of securities shall be carried, except securities and short sales as to which the member shall have accepted in good faith a signed statement of the customer that he is in turn carrying such securities and such short sales for the account of his customers other than his partners;

(2) The maximum loan value of a registered security (other than an exempted security) having loan value in such a special omnibus account shall be such special maximum loan value, and the amount to be included in the adjusted debit balance of such an account as the margin required for short sales shall be such special amount, as the Board shall prescribe from time to time for special omnibus accounts in the supplement to this regulation; and

(3) If the maximum loan value of the securities in the account shall have equalled or exceeded the adjusted debit balance of the account after all the transactions in the account on any day within the period specified in section 3(b), the liquidating or covering transactions required by section 3(e) need not be effected.

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(c) Special cash account. - In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may --

(1) purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for such security; or

(2) sell any security for, or purchase any security from, any customer, provided the security is held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the security is to be promptly deposited in the account.

Except as otherwise provided in this section 4(c), in case a customer does not make full cash payment for a security purchased by him in the account, or does not deposit in the account a security sold by him in the account, within seven days after the date on which the security was purchased or sold, the creditor shall promptly cancel, cover, or otherwise liquidate, the transaction or the unsettled portion thereof.

If the security was purchased for the customer subject to a customary "seller's option" as to the time of delivery, or if the security was purchased for, or sold to, the customer and the creditor "failed to receive" the security at the usual time of delivery, the period referred to in the preceding paragraph shall be five days from the day on which the creditor acting in good faith was able to obtain the security. If the security was sold for the customer subject to a customary "seller's option" as to the time of delivery, such period shall end with the day on which the option expires. If the security when purchased or sold was an unissued security, such period shall be seven days from the day on which the security was made available by the issuer for delivery to purchasers of the security.

If any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, may (A) extend any period specified in the two preceding paragraphs for one or more limited periods commensurate with the circumstances, or (B) in the case of the purchase of a registered or exempted security which has been effected by the customer in the account, authorize the transfer of the transaction to a general account or special omnibus account and the completion of the transaction pursuant to the provisions of this regulation relating to such accounts.

The days specified in this section 4(c) are calendar days, but if the last day of any period specified herein is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this section 4(c), a creditor may, at his option, disregard any sum due by the customer not exceeding $50.

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(d) Special arbitrage account. - In a special arbitrage account, a member of a national securities exchange may effect and finance for any customer bona fide arbitrage transactions in securities. For the purposes of this subsection, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within a reasonable time into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities.

(e) Special commodity account. - In a special commodity account, a creditor may effect and carry for any customer transactions in commodities.

(f) Special miscellaneous account. - In a special miscellaneous account, a creditor may --

(1) With the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, make and maintain loans to meet the emergency needs of any creditor;

(2) Effect and finance, for any joint adventure in which the sole participants are the creditor and one or more members of a national securities exchange who are registered on such exchange as odd-lot dealers and acting as such, any transactions in securities with respect to which all participants, or all participants other than the creditor, are so registered and so act;

(3) Effect transactions for and finance any joint adventure or group in which the creditor participates and in which all participants are dealers (whether such participants be acting jointly or severally), or any member thereof or participant therein, for the purpose of facilitating the underwriting or distributing of all or part of an issue of securities (A) not through the medium of a national securities exchange, or (B) the distribution of which has been approved by the appropriate committee of a national securities exchange;

(4) Effect for any customer the collection or exchange (other than by sale or purchase) of securities deposited by the customer specifically for such purposes, and (subject to any other applicable provisions of law) receive from or for any customer, and pay out or deliver to or for any customer, any money or securities;

(5) Effect and carry for any customer transactions in foreign exchange; and

(6) Extend and maintain credit to or for any customer without collateral or on any collateral whatever for any purpose other than purchasing or carrying or trading in securities.

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SECTION 5. BORROWINGS BY MEMBERS, BROKERS, AND DEALERS

(a) General rule. - It is unlawful for any creditor, directly or indirectly, to borrow in the ordinary course of business as a broker or dealer on any registered security (other than an exempted security) except

(1) from or through a member bank of the Federal Reserve System; or

(2) from any nonmember bank which shall have filed with the Board an agreement which is still in force and which is in the form prescribed by this regulation; or

(3) to the extent to which, under the provisions of this regulation, loans are permitted between members of a national securities exchange and/or brokers and/or dealers, or loans are permitted to meet emergency needs.

(b) Agreements of nonmember banks. - An agreement filed pursuant to section 8(a) of the Act by a bank not a member of the Federal Reserve System shall be substantially in the form contained in Form F.R. T-2 if the bank has its principal place of business in a territory or insular possession of the United States, or if it has an office or agency in the United States and its principal place of business outside the United States. The agreement filed by any other nonmember bank shall be in substantially the form contained in Form F.R. T-1. Any nonmember bank which has executed any such agreement may terminate the agreement if it obtains the written consent of the Board. Blank forms of such agreements, information regarding their filing or termination, and information regarding the names of nonmember banks for which such agreements are in force, may be obtained from any Federal Reserve bank.

(c) Borrowing from other creditors. - A creditor may borrow from another creditor in the ordinary course of business as a broker or dealer on any registered security to the extent and subject to the terms upon which the latter may extend credit to him in accordance with the provisions of this regulation, and subject to any other applicable provisions of law.

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SECTION 6. CERTAIN TECHNICAL DETAILS

(a) Accounts of partners. - In case a general account is the account of a partner of the creditor, the creditor, in calculating the adjusted debit balance of such account and the maximum loan value of the securities therein, shall disregard the partner's financial relations with the firm as reflected in his capital and ordinary drawing accounts.

(b) Contribution to joint adventure. - In case a general account is the account of a joint adventure in which the creditor participates, the adjusted debit balance of the account shall include, in addition to the items specified in section 3(d), any amount by which the creditor's contribution to the joint adventure exceeds the contribution which he would have made if he had contributed merely in proportion to his right to share in the profits of the joint adventure.

(c) Guaranteed accounts. - In case a general account maintained by a creditor for one customer is guaranteed in writing by another customer for whom the creditor maintains a general account, the adjusted debit balance of the guaranteed account may, at the option of the creditor, be computed by deducting from the sum of the items specified in section 3(d) an amount not greater than the excess of the maximum loan value of the securities in the guarantor's general account over the adjusted debit balance of such guarantor's account calculated without the addition thereto prescribed by the following paragraph, provided (1) the guarantor is not a creditor, (2) a duplicate original of the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected, and (3) the guarantee permits the creditor to use funds and securities in the guarantor's account to carry the guaranteed account without restriction, except that the guarantee may be limited to a specified amount and in that event the deduction shall not exceed such amount.

In case a guarantee has served to permit in the guaranteed account any transaction which could not otherwise have been effected in accordance with this regulation: (A) the adjusted debit balance of the guarantor's account shall be computed by adding to the sum of the items specified in section 3(d) an amount equal to the deduction made pursuant to the preceding paragraph; (B) the creditor shall not subsequently decrease the amount of such deduction, or the amount of the consequent addition to the adjusted debit balance of the guarantor's account, unless the adjusted debit balance of the guaranteed account, after such decrease and after all transactions in such guaranteed account on the date of such decrease, does not exceed the maximum loan value of the securities in such guaranteed account; and (C) if the guarantee is terminated or the amount thereof reduced, the creditor shall require that, after all the transactions (including such termination or reduction) on the date of such termination or reduction, the adjusted debit balance of the guaranteed account shall not exceed the maximum loan value of the securities in the account.

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(d) Transfer of accounts. - In the event of the transfer of a general account from one creditor to another, such account may be treated for the purposes of this regulation as if it had been maintained by the transferee from the date of its origin: Provided, That the transferee accepts in good faith the signed statement of the transferor that no cash or securities need be deposited in the account in connection with any transaction that has been effected in the account or, in case he finds that it is not practicable to obtain such a statement from the transferor, accepts in good faith such a signed statement from the customer.

In the event of the transfer of a general account from one customer to another, such account may be treated by the creditor for the purposes of this regulation as if it had been maintained for the transferee from the date of its origin.

(e) Reorganizations. - A creditor may, without regard to the other provisions of this regulation, effect for a customer the exchange of any registered or exempted security in a general account for the purpose of participating in a reorganization or recapitalization in which the security is involved: Provided, That if an unregistered non-exempted security is acquired in exchange, the creditor shall not, for a period of sixty days following such acquisition, permit the withdrawal of such security or the proceeds of its sale from the customer's account except to the extent that such security or proceeds could be withdrawn if the security were a registered security.

(f) Time of receipt of funds or securities. - For the purposes of this regulation, a creditor may, at his option (1) treat the receipt in good faith of any check or draft drawn on a bank which in the ordinary course of business is payable on presentation, or any order on a savings bank with passbook attached which is so payable, as receipt of payment of the amount of such check, draft or order; (2) treat the shipment of securities in good faith with sight draft attached as receipt of payment of the amount of such sight draft; and (3) in the case of the receipt in good faith of written or telegraphic notice in connection with a special omnibus account of a customer not located in the same city that a specified security or a check or draft has been dispatched to the creditor, treat the receipt of such notice as receipt of such security, check or draft: Provided, however, That if the creditor receives notice that such check, draft, order, or sight draft described in clause (1), (2) or (3) is not paid on the day of presentation, or if such security, check or draft described in clause (3) is not received by the creditor within a reasonable time, the creditor shall promptly take such action as he would have been required to take by the appropriate provisions of this regulation if the provisions of this subsection had not been utilized.

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(g) Interest, service charges, etc. - Interest on credit maintained in a general account, communication charges with respect to transactions in the account, shipping charges, premiums on securities borrowed in connection with short sales or to effect delivery, dividends or other distributions due on borrowed securities, and any service charges (other than commissions) which the creditor may impose, may be debited to the account in accordance with the usual practice and without regard to the other provisions of this regulation, but such items so debited shall be taken into consideration in calculating the net credit or net debit balance of the account.

A creditor may, without regard to the other provisions of this regulation, pay to or for a customer from a general account interest or cash dividends collected by the creditor for such account, if such payment is made within 35 days after the day on which, in accordance with the creditor's usual practice, such interest or dividends are credited to the account, and if the crediting thereof has not served in the meantime to permit in the account any purchase of securities or other transactions which could not otherwise have been effected in accordance with this regulation.

(h) Borrowing and lending securities. - Without regard to the other provisions of this regulation, a creditor (1) may make a bona fide deposit of cash in order to borrow securities (whether registered or unregistered) for the purpose of making delivery of such securities in the case of short sales, failure to receive securities he is required to deliver, or other similar cases, and (2) may lend securities for such purpose against such a deposit.

(i) Credit for clearance of securities. - The extension or maintenance of any credit which is maintained for only a fraction of a day (that is, for only part of the time between the beginning of business and midnight on the same day) shall be disregarded for the purpose of this regulation, if it is incidental to the clearance of transactions in securities directly between members or through an agency organized or employed by the members of a national securities exchange for the purpose of effecting such clearance.

(j) Foreign currency. - If foreign currency is capable of being converted without restriction into United States currency, a creditor acting in good faith may treat any such foreign currency in an account as a credit to the account in an amount determined in accordance with customary practice.

(k) Innocent mistakes. - If any failure to comply with this regulation results from a mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance, market price or loan value, or other similar matter, the creditor shall not be deemed guilty of a violation of this regulation if promptly after the discovery of the mistake he takes whatever action may be practicable in the circumstances to remedy the mistake.

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SECTION 7. MISCELLANEOUS PROVISIONS

(a) Arranging for loans by others. - A creditor may arrange for the extension or maintenance of credit to or for any customer of such creditor by any person upon the same terms and conditions as those upon which the creditor, under the provisions of this regulation, may himself extend or maintain such credit to such customer, but only upon such terms and conditions, except that this limitation shall not apply with respect to the arranging by a creditor for a bank subject to Regulation U to extend or maintain credit on registered securities or exempted securities.

(b) Maintenance of credit. - Except as otherwise specifically forbidden by this regulation, any credit initially extended without violation of this regulation may be maintained regardless of (1) reductions in the customer's equity resulting from changes in market prices, (2) the fact that any security in an account ceases to be registered or exempted, and (3) any change in the maximum loan values or margin requirements prescribed by the Board under this regulation. In maintaining any such credit, the creditor may accept or retain for his own protection additional collateral of any description, including unregistered securities.

(c) Declaration as to purpose of loan. - Every extension of credit on a registered security (other than an exempted security) shall be deemed to be for the purpose of purchasing or carrying or trading in securities, unless the customer shall file with the creditor a written declaration signed by the customer which shall state the use to be made of such credit and which shall state specifically that such credit is neither for the purpose of purchasing or carrying or trading in securities nor for the purpose of evading or circumventing the provisions of this regulation. In connection with any extension of credit, a creditor may rely upon such a written declaration unless he knows the statement to be false or has information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement.

(d) Reports. - Every creditor shall make such reports as the Board may require to enable the Board to perform the functions conferred upon it by the Act.

(e) Additional requirements by exchanges and creditors. - Nothing in this regulation shall (1) prevent any exchange from adopting and enforcing any rule or regulation further restricting the time or manner in which its members must obtain initial or additional margin in customers' accounts because of transactions effected in such accounts, or requiring such members to secure or maintain higher margins, or further restricting the amount of credit which may be extended or maintained by them, or (2) modify or restrict the right of any creditor to require additional security for the maintenance of any credit, to refuse to extend credit, or to sell any securities or property held as collateral for any loan or credit extended by him.

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SUPPLEMENT TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective January 1, 1938.

Maximum loan value for general accounts. - The maximum loan value of a registered security (other than an exempted security) in a general account, subject to section 3 of Regulation T, shall be 60 percent of its current market value.

Maximum loan value for special omnibus accounts. - The maximum loan value of a registered security (other than an exempted security) in a special omnibus account, subject to section 4 of Regulation T, shall be 75 percent of its current market value.

Margin required for short sales. - The amount to be included in the adjusted debit balance of a general account pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 50 percent of the current market value of each such security, and in the case of a special omnibus account with another member, broker or dealer, such amount shall be 35 percent of such current market value.

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Amendment No. 11 of Regulation T - Effective December 6, 1937

BE IT RESOLVED, That, effective December 6, 1937, Regulation T, as amended, is further amended by adding at the end thereof after section 12 a new section reading as follows:

SECTION 13. SPECIAL COMMODITY ACCOUNT

Notwithstanding any other provision of this regulation:

(a) In a special commodity account recorded separately, a creditor may effect and carry for any customer transactions in commodities, and such a special account when so recorded shall be excluded from all calculations involving any combined account or any other special account; and

(b) On or before December 31, 1937, the creditor shall transfer to the special commodity account of a customer from the combined account and from any other special account of such customer (1) all open trades or contracts in commodities carried in such combined account or such other special account, together with (2) funds in an amount equal to the amount of margin customarily required by the creditor on all such open trades or contracts so transferred plus any net loss on such open trades or contracts OR minus any net profit (not exceeding such margin) on such open trades or contracts.

A special commodity account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation. If a customer has with a creditor both a combined account and such a special commodity account, the creditor shall treat the special commodity account as if the customer had with the creditor no combined account.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-124

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 4, 1937.

Dear Mr.

Recently a suggestion was received from President Fleming of the Federal Reserve Bank of Cleveland that it would be beneficial if meetings of the directors and officers of the Federal reserve banks with the Board of Governors could be arranged, either in groups of directors and officers or the directors and officers of individual Federal reserve banks. In its reply, a copy of which is attached, the Board has requested that President Fleming obtain the suggestions of the board of directors of the Federal Reserve Bank of Cleveland as to the details of a program for such meetings. It will be appreciated if you will discuss the matter with the board of directors of your bank in the light of the request made in the letter to President Fleming and advise the Board of the suggestions that your directors may wish to make.

When the suggestions of all Federal reserve banks have been received, the Board, sometime after the first of the year, will advise you of the program determined upon.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS (Except Cleveland and Chicago.)

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Federal Reserve Bank of St. Louis

R-124-a

December 4, 1937.

Mr. M. J. Fleming, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Fleming:

Mr. Szymczak brought to the attention of the Board your letter of November 15 with respect to meetings of directors and officers of the Federal reserve banks with the Board of Governors. The Board also received a letter dated November 19 from President Schaller, of the Federal Reserve Bank of Chicago, transmitting a suggestion of the board of directors of that bank that a meeting of all directors of the Federal reserve banks be held at least annually at some point convenient for all directors.

The Board is in full accord with the thought that meetings with directors of Federal reserve banks from time to time would be very desirable. In this connection you may recall that in 1934 an attempt was made to arrange for meetings with boards of directors of the Federal reserve banks, but because of other demands it was not possible to work out a practical program, and the meetings were postponed. Certain questions of procedure have arisen in considering the idea upon which the Board would be glad to have the advice of your directors, and it will be appreciated if you will discuss the matter with them.

Naturally, the first question that arose was whether the meetings should be confined to directors only, or to directors and officers of the Federal reserve banks, and whether they should be extended to include directors of the branches. Even without the directors of the branches, it was pointed out that a meeting of all the directors and senior officers of the twelve Federal reserve banks would be quite large and might not be productive of the desired results. On the other hand, doubt was suggested as to whether a meeting with the directors and officers, including possibly, also, the directors of the branches of a single district, would be as desirable as a grouping of, say, three districts at one meeting.

Interwoven with these questions were the additional questions as to whether the meetings should be held in Washington or at some other place or places which might be convenient for the particular banks represented, and what sort of a program should be formulated, and by whom, as to the matters to be discussed.

The Board will be glad to have the benefit of the recommendations of your directors on these questions and is sending a copy of this letter to the President of each of the Federal reserve banks for the same purpose.

Very truly yours,
(Signed) Chester Morrill
Chester Morrill,
Secretary.

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R-125

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1937.

SUBJECT: Reconsideration of Exception in Section 3(a) of Regulation L re Morris Plan Banks.

Dear Sir:

Pursuant to the authority conferred upon it by Section 8 of the Clayton Act as amended by the Banking Act of 1935, the Board of Governors, as you know, has granted permission to any private banker or any director, officer or employee of a member bank to serve at the same time as a director, officer or employee of not more than one "Morris Plan bank, cooperative bank, credit union or other similar institution." This permission, which is set forth in Section 3(a) of the Board's Regulation L, was granted because it appeared that Morris Plan banks were not generally engaged in the same classes of business as commercial banks.

There appears, however, to be an increasing tendency on the part of commercial banks and on the part of Morris Plan banks and other similar institutions to engage in the same classes of business. Specifically, it appears that some Morris Plan banks and other similar institutions now receive deposits subject to check, as well as time and savings deposits, and that some no longer limit the scope of their lending activities to the type of loans which were originally peculiar to Morris Plan banks and similar institutions. Some commercial banking institutions, on the other hand, have inaugurated personal loan departments which are being operated on the basis of installment repayments and co-maker note security.

These developments raise the question whether Morris Plan banks and similar institutions, on the one hand, and commercial banks, on the other, are now engaged in some of the same classes of business to such an extent that the permission granted by the Board in Section 3(a) of Regulation L to serve a member bank of the Federal Reserve System and not more than one Morris Plan bank or other similar institution should be withdrawn. In the circumstances, it will be appreciated if you will ascertain and advise the Board

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as to the approximate number of interlocking relationships involving Morris Plan banks and similar institutions in your district which would be prohibited by the Clayton Act except for the permission granted in Section 3(a) of Regulation L, and also as to the extent to which such institutions in your district are now engaged in the same classes of business as member banks.

It is not contemplated that the information desired by the Board will require that the Federal Reserve banks address questionnaires or other requests for information generally to the banks in their respective districts, as it is believed that data already in the possession of the Reserve banks by reason of their own intimate knowledge of banking conditions in their districts, or readily available to them through directories, reports of examinations, and discussions with examiners, supervisory authorities and representative bankers, should be sufficient to provide the Board with the information necessary to a proper consideration of the question. In addition, it is possible that counsel to your bank may have knowledge of developments which would have a bearing on the matter.

In submitting this information it will be appreciated if you will also give the Board the benefit of your views as to the desirability of amending Regulation L at this time by eliminating the words "Morris Plan bank," from Section 3(a) thereof.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-126

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1937.

Dear Sir:

Replies from the Federal Reserve banks to the Board's letter of February 24, 1937 (B-1200) indicate that it will be impracticable to compile comparable figures of earnings and expenses of the Federal Reserve banks for the period 1914-1935 in the detail shown on Forms 95, 96 and 96a as revised for use during 1937. Accordingly, it is proposed at this time to prepare only condensed comparative reports of earnings and expenses for the years prior to 1936. While it may be necessary to request some additional information from your bank in order to prepare such statements, it is not contemplated that you will be asked to submit extensive data as to earnings and expenses of prior years.

In compiling comparative reports of profit and loss for prior years, we should like to have more complete information than is now available with respect to losses sustained by the Federal Reserve banks, and, accordingly, it is requested that you submit the data called for on the inclosed forms, which provide for a tabulation of losses by years during the period 1914-1936. The figures for 1929-1934 should be reconciled with those furnished the Board in reply to its telegram of August 2, 1935 (TRANS 2293) before they are forwarded to the Board.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures

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R-126a
Dec. 1937

ANALYSIS OF LOSSES AND RESERVES FOR LOSSES

F.R. Bank of ____________

(Exclusive of reserves and charge-offs on bank premises, other real estate originally acquired for banking house purposes, and F.D.I.C. stock)

	1	2	3	4	5	6	7	8	9
	Reserves at end of preceding year	Additional reserves set aside	Recoveries of previous charge-offs credited to reserves	Losses charged off during year direct to reserves	Amounts withdrawn from reserves and credited to profit and loss	Reserves at end of year	Losses charged direct to profit and loss	Recoveries of previous charge-offs credited to profit and loss	Total net losses (4 + 7) - (3 + 8)
1914-1915									
1916									
1917									
1918									
1919									
1920									
1921									
1922									
1923									
1924									
1925									
1926									
1927									
1928									
1929									
1930									
1931									
1932									
1933									
1934									
1935									
1936									

Note: Losses, if any, charged to current expenses or deducted from gross earnings should not be included in this statement, but a separate statement should be submitted classifying by years available information with respect to such losses.

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R-126b
Dec. 1937 324

DISTRIBUTION OF NET LOSSES (Column 9 of R-126a)

F.R. Bank of ____________

	On discounted paper	On bills bought	On sales of Government securities 1/	On cash and non-cash items	On industrial advances	All other 2/	Total
1914-1915							
1916							
1917							
1918							
1919							
1920							
1921							
1922							
1923							
1924							
1925							
1926							
1927							
1928							
1929							
1930							
1931							
1932							
1933							
1934							
1935							
1936							

1/ Submit separate schedule of net profits on sales of U. S. securities by years.
2/ Explain amounts in excess of $2,500.

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Federal Reserve Bank of St. Louis

R-127

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

December 7, 1937.

SUBJECT: Code Words Covering New Issues of Treasury Notes and Treasury Bonds.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Notes and Treasury Bonds:

"NOWLOG" - 1 3/4% Treasury Notes, Series C-1942, to be dated December 15, 1937, and to mature December 15, 1942.

"NOWDEB" - 2 1/2% Treasury Bonds of 1945, to be dated December 15, 1937, and to mature December 15, 1945.

These code words should be inserted in the Federal Reserve Telegraph Code book, on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-128

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 1937.

Dear Sir:

There is inclosed for your information a copy of a letter which the Board is addressing to the Federal Reserve Bank of San Francisco with regard to the stolen bonds referred to in the Board's letter of January 13, 1936 (X-9428).

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL PRESIDENTS OF FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

December 7, 1937.

Mr. C. E. Earhart, Cashier,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Earhart:

This refers to your letter of October 26, 1937, requesting information as to the numbers and denominations of the stolen bonds listed with the Board's letter of January 13, 1936 (X-9428) which have not yet been recovered.

We have just received from the Federal Bureau of Investigation the following list of such stolen securities which have not as yet been recovered:

Two $100,000 U. S. Treasury Notes, Series B, 2-7/8%, due June 15, 1938, Nos. 9610L, 1402B Three $10,000 U.S. Treasury Notes, Series B, 2-7/8%, due June 15, 1938, Nos. 38020L, 38053C, 38054D	Stolen from U.S. Trust Company on December 13, 1934.

Five $10,000 U. S. Treasury Notes, Series A, 2-1/8%, due June 15, 1939, Nos. 46398, 46399, 46400, 46401, 46402 One $5,000 U. S. Treasury Note, Series C, 2-7/8%, due April 15, 1936, No. 5789K One $1,000 4th U. S. Liberty Loan Bond, 4-1/4% (called) G02346787 Five $1,000 National Public Service 5% bonds, due February 1, 1978, Nos. M2050 M8939, M8940, M12191, M13020	Stolen from The Bank of Manhattan Company on January 28, 1935.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-129
December 8, 1937

Dear Sir:

Referring to the Board's letter of December 6, 1937, (S-50), there is inclosed a proof copy of Form 34 as revised for use during 1938.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1937.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of November, 1937.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
November 1 to 30, 1937.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	25,000	130,000	$ 12,480.00
New York	175,000	45,000	220,000	21,120.00
Philadelphia	90,000	25,000	115,000	11,040.00
Cleveland	96,000	-	96,000	9,216.00
Richmond	40,000	25,000	65,000	6,240.00
Atlanta	45,000	-	45,000	4,320.00
Chicago	95,000	55,000	150,000	14,400.00
St. Louis	65,000	-	65,000	6,240.00
Minneapolis	30,000	-	30,000	2,880.00
Kansas City	35,000	25,000	60,000	5,760.00
Dallas	25,000	-	25,000	2,400.00
San Francisco	80,000	35,000	115,000	11,040.00
	881,000	235,000	1,116,000	$107,136.00

1,116,000 sheets @ $96.00 per M,.......$107,136.00

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-131

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1937.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZKIT" - Treasury Bills to be dated
December 15, 1937, and to
mature March 19, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZKEY" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

R-132

BOARD OF GOVERNORS
OF THE

FEDERAL RESERVE SYSTEM

Statement for the Press

December 14, 1937.

Attached is a copy of the address delivered by Chairman Eccles before the Annual Meeting of the American Farm Bureau Federation at Chicago, Tuesday forenoon, December 14, 1937.

RELEASED FOR PUBLICATION AFTER 12.00 NOON EASTERN STANDARD TIME, DECEMBER 14, 1937.

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Z-62

AN ADDRESS
BEFORE THE
ANNUAL MEETING
OF THE
AMERICAN FARM BUREAU FEDERATION
AT CHICAGO
DECEMBER 14, 1937,
BY
MARRINER S. ECCLES,
CHAIRMAN OF THE BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

It is particularly gratifying to me to have this opportunity today to speak before the American Farm Bureau Federation. Your leaders and members, to a much greater extent than some of the other organized groups in this country, are approaching fundamental economic problems from a broad public-interest standpoint. I feel, therefore, that I can discuss here some of the problems as I see them at this time, knowing that you are interested, as we who are charged with certain monetary responsibilities must be, in finding wherever possible the solutions which will be of the greatest benefit to the nation as a whole.

I do not need to tell you that your daily life and prosperity are dependent on developments in industry and trade, and that the proper functioning of the monetary mechanism is of great concern to you. Accordingly, you will understand why I wish to confine my remarks largely to an interpretation of the present situation in the industrial and monetary field, rather than to attempt to discuss the agricultural problem which you know so much better than I do. I would rather listen to you on that subject.

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During the past three years I have lived continuously with the problem of how to achieve and maintain full and continuous employment of the country's human and material resources. I have been chiefly concerned with the contribution the Federal Government in general and the Federal Reserve System in particular could make to the solution of the problem. As time has passed, I have become increasingly impressed with the danger to our common goal resulting from conflicting policies of different economic groups. Before we can achieve a larger measure of stability we will have to find some way of ensuring that the policies of private business and organizations, whether of farmers, of labor, or of business men, are not in conflict with our common objectives.

From 1934 up to the last quarter of 1936, we had an orderly recovery movement. The steady expansion in consumer incomes and buying power, in considerable part attributable to what the Government spent in excess of what it collected, led to a steady growth in production. The Index of Industrial Production moved gradually upward from 86 in December, 1934, to 110 in October, 1936, while the Index of Payrolls rose 39 percent in the same period. Wholesale commodity prices remained practically unchanged, so that the expansion in the national income from 1934 to 1936 of some $14 billion represented not merely more money received by our people, but an increase in the amount of goods that they could purchase.

The orderly character of the recovery movement, under which such steady progress had been made, underwent a drastic change in the final quarter of 1936, and in the six months following October of last year

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prices began to rise rapidly. It was in this six months' period that the groundwork of the present recession was laid.

Among the factors contributing to the upsurge in costs, prices and inventory buying, were the bonus payments coming on top of already heavy Government expenditures and giving a sharp additional impetus to consumer buying. The organizing campaign of labor, together with the drive for higher wages and shorter hours, added to expectations of higher prices. The rearmament program in various countries contributed to the general inflationary sentiment. A sellers' market developed and widespread advantage was taken of it to increase prices. Various important sectors of industry which had not added to their productive capacity in the preceding years found themselves unable to promise quick delivery, leading to still further piling up of orders and higher prices. The prices of various internationally-controlled raw materials skyrocketed, while bond prices declined.

The longer this condition persisted and the further wage costs and prices advanced, the more severe the inevitable reaction was bound to be. Therefore, before the movement acquired further momentum, the President, on April 2, issued a warning statement. The previous announcement by the Board of Governors of raised reserve requirements for member banks, which I shall discuss in more detail later, tended to diminish the fear or expectation of credit inflation. In any case, a damper was put on inflationary sentiment. Prices temporarily leveled out. Industrial production,

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though interrupted here and there by strikes, was broadly maintained. But it was maintained on the basis largely of forward orders and part of the output was piling up in the form of inventories rather than moving forward to consumers.

The backlog of orders which had accumulated in the winter and spring in anticipation of price advances kept business going until well along in the summer. Balance sheets of industrial corporations and mercantile establishments reveal that in the latter part of this summer inventories were in excess of what they were last year while at the same time sales were declining. If sales to consumers had continued to increase, inventories could have been rapidly absorbed. As far as can be judged from available figures, however, consumer buying did not increase after last spring. The income of consumers apparently ceased to expand after May and the volume of their purchases likewise failed to increase.

An important factor in the arrested growth of buying by consumers was the failure of building activity to expand. There was every reason to expect residential building of substantial proportions this year. The national income was running considerably above 1936, rents were rising, and the accumulated housing shortage was growing more acute. As has frequently been pointed out, we should be building an average of some 800,000 housing units a year for five years to make up for the shortages, to offset demolition and to provide for the normal growth in the number of families.

Yet, instead of increasing, residential building actually turned down in May, and it is doubtful whether the number of units built this year

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will much exceed 280,000, the number constructed in 1936. The only explanation that can be offered to account for this disappointing showing is the sharp advance in construction costs last spring while rents did not advance as rapidly, so that it became less profitable to build.

Coupled with these developments, there was a decrease in Government expenditures and an increase of tax collections, particularly on social security account. In the first eleven months of this year, the excess of cash expenditures by the Federal Government over cash receipts declined by three billion dollars as compared with the same period last year. Owing to the failure of consumer incomes and buying to increase, industry found that as forward orders were filled there were not enough new orders coming along to keep up the volume of production and thus of employment.

The various factors which I have enumerated were chiefly responsible, in my judgment, for bringing about the current decline of business. Other factors may have been contributory in some degree, but upon careful analysis they appear to be entirely insufficient to account for the recession. The more I have considered other explanations, the more I have been led to the conclusion that the cost and price advances of last winter and spring were the principal causes of the subsequent downturn.

There are critics who contend that monetary policy has been primarily responsible for the present recession. They think that sterilization of incoming gold by the Treasury and the actions of the Board of Governors of the Federal Reserve System in increasing the reserve requirements of member

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banks caused a reversal of the upward movement. Upon careful searching of the record, I cannot find convincing evidence to support this analysis. At the time these actions were taken member banks had a volume of reserves that could have become the basis of an inflationary expansion of credit which under the law it was the duty of the Federal Reserve authorities to prevent. At the time final action on reserves was taken the aggregate of bank deposits and of currency in circulation was larger than it had been in 1929. If no action had been taken, excess reserves would by now have been about $5 billion, sufficient to support an enormous and inflationary increase in deposits.

Even after the excess reserves were reduced, member banks still had enough left to meet all current demands for credit, and money rates remained at exceptionally low levels. In effect, the actions of the Board did not "put on the brakes", as some critics have said, but merely took up a large part of the slack so that the Reserve System was placed in the position it was intended to occupy in which, as was stated at the time, it would be able to use the traditional and flexible instruments of open-market and rate policy either in the direction of further monetary ease or in the opposite direction as changing conditions and the public interest might require. As a matter of fact, last spring the Board eased conditions through open-market operations and again this fall, in cooperation with the Treasury, further steps were taken in the same direction by desterilization of gold and by subsequent open-market operations. Similarly the Reserve System put into effect last August the lowest discount rates in the history of the System.

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If the actions taken last winter had a psychological effect in restraining the inflationary developments which were clearly under way at the time, then these actions were definitely in the public interest. If this be so then my only regret is not that the actions were taken, but that they were not taken earlier.

Another explanation of the recession that has been advanced ascribes it primarily to the undistributed profits and capital gains taxes. There are some who consider this explanation so obvious and so important that they urge the immediate repeal of these taxes or a revision so drastic as effectively to destroy them. I would be the last to contend that these levies are perfectly drafted, but I would urge that changes in these taxes be made only after careful consideration of such reforms and modifications as would make them more equitable and improve the working of the mechanism without prematurely abandoning the principles of these taxes.

It should be recalled that the undistributed profits tax was designed to correct evils appearing in the economy of the twenties, as well as in more recent years, such as the avoidance of individual surtaxes in the upper-bracket incomes through non-distribution of profits, the inequalities in the taxation of incorporated and unincorporated businesses, the piling up of corporate earnings which make for further combinations and consolidations and the reduction of competition, the accumulation of large balances that boosted security prices through being loaned to the call money market and that, later on in the depression, were shunted around from place to place and were an important indirect cause of numerous bank failures. We must remember that a general liquidation of debts in the economy or a gradual accumulation of idle reserve funds could well intensify deflationary forces at this time, whereas

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if the tax were so modified as to exempt earnings which were used for capital account, the effect would be to increase the use of funds and hence business activity. It would be well to consider how this tax can be made to function more equitably, particularly with respect to small business. It would, however, be shortsighted to be stampeded into hasty abandonment of a tax principle which is fundamentally sound and equitable.

Likewise, while I agree that the capital gains tax should be improved, we should remember that this tax is designed simply to make effective the progressive taxation of income in accordance with ability to pay--a course on which I think the American people are soundly determined. There is little convincing reason why the realized income from a rise in property values, including speculative profits, should be dealt with more leniently than the realized income, for instance, from personal earnings. There is little in the history of security prices to indicate that they have fluctuated more widely when this tax was higher than when it was lower. The stock market has gone up and down when the capital gains tax was much smaller and less restrictive, as in 1929, and when the capital gains tax was much larger as in 1936-37. We should also remember that both the undistributed profits tax and the capital gains tax were in force in 1936, when industrial plant and equipment expenditures and general investment were expanding at a rate quite as rapid as could reasonably have been expected. And during the first nine months of this year the volume of industrial plant and equipment expenditures was maintained at a level approximating that of the pre-depression year of 1928. The recession, therefore, cannot logically be ascribed to the curtailment of expenditures because of this tax.

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The basic causes of the present situation are not to be found either in the capital gains tax, the undistributed profits tax, or in monetary policy, but, as I have indicated, in the rapid price and cost advances of last winter and spring. The experience of this past year illustrates again the limitations of monetary and fiscal policy. Fiscal policy, in particular, cannot be quickly adjusted to sudden changes in business activity because such policy depends largely upon prior legislative enactments.

When the disruptive price factors became intensified last spring and proposals were advanced in some quarters to correct the situation through monetary action to tighten money rates, I issued a public statement for the purpose of refuting the notion that monetary action should be invoked to correct such conditions. I pointed to the fact that the price rises were the result primarily of non-monetary factors including foreign armament demands, strikes and monopolistic practices by certain groups both in industry and organized labor and that these factors had led in turn to speculative security and commodity buying which served to accelerate the price advances. I suggested at the time that other means than a restrictive money policy must be used under such conditions to control unwarranted price advances which result in a rise in the cost of living for a majority of the people without a commensurate increase in their income.

It is, of course, easier to raise problems than it is to solve them. When we review the events leading up to the current recession, it becomes apparent that a basic difficulty in achieving full and continuous utilization of our human and natural resources lies in the conflict between immediate private interests and the general welfare. Those groups that contributed to the upsurge in costs and prices last winter and spring were not acting either in the public interest or in their own ultimate interest.

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We must recognize the fact that competition has declined and monopoly elements have increased over large sectors of our economy. For example, it could only have been the absence of competition that permitted building costs to soar on the low volume of building that took place last spring. It is only the absence of competition that can explain the maintenance of fixed prices and wage rates when the volume of activity declines sharply. The gradual increase in the non-competitive elements in our economy, so strikingly illustrated in the developments of the past year, raises some highly important questions:

How are we to achieve and maintain full employment if private groups and organizations raise prices and costs whenever increased demand appears, although there is still an abundance of idle and unused man power, plant facilities and raw materials? Does this necessitate steady increases in consumer buying power through deficit spending? How long can we pursue such a course? Are we to attempt to return to a truly competitive laissez faire economy? If not, are the alternatives facing organizations of capital and labor either self-government in the public interest or increased regulation in the public interest?

I earnestly hope they will choose the former alternative. So far as a return to laissez faire is concerned, I doubt that this is possible. The development of the industrial process itself has created larger units and has brought into being various forms of organization of both capital and labor. Rather than attempt to revert to earlier forms of organization, it seems to me that our best hope lies in developing that form of organization for capital and labor which will best further the public interest. Thought must also be given to the best form of organization that will insure an adequate representation of the public interest involved in price, wage and production policies.

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The ultimate self-interest both of capital and of labor is identical with the public interest. I am hopeful that individual business men in strategic positions, and the various local, trade and national associations of business men, will act upon a recognition of the fact that their long-run interests are bound up with the largest possible volume of production at the lowest possible prices. For their own ultimate benefit, as well as in the interests of a stable economy with a steadily rising standard of living, they must resist the temptation to secure larger returns through the adoption of policies that restrict output.

Likewise, I am hopeful that labor policy will increasingly take into account the fact that after a certain point the gains of labor are dependent upon increased productivity. Advances in wages which are in excess of increasing productivity and result in increased prices react against labor itself, as well as against the community at large. If they result in advancing prices, they encourage speculative inventory buying, or shut off demand, or both, as we have recently seen. If they reduce profits below a point that encourages new investment, they lead to decreased plant, equipment and other capital expenditures. Similarly, general shortening of hours not offset by increases in efficiency is bound to result in a lower standard of living for workers generally. Accordingly, it is to the interest of labor leadership to take into consideration the effect of its policies on the general price level, on the standard of living, and on progress toward as full and as continuous employment as possible of the human and material productive resources of the nation.

We are prone to take for granted a steadily rising standard of living without inquiring too closely into the basis for this belief. Actually

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there is only one way in which the general standard of living can rise and that is by an increase in the production and consumption of real goods and services per head of the population. This stubborn fact, though incontrovertible, is too often ignored or forgotten. We are inclined to think too much in terms of money incomes and not enough in terms of what the incomes will buy.

In the final analysis, the national income is measured by the total output of goods. If there is less to divide, all groups of the population, including capital, labor, and agriculture, will suffer. The national standard of living will decline.

I have sought to state in the broadest and most fundamental terms what I believe to be some of the major economic problems raised by our recent experience. These long-range, fundamental problems cannot be solved overnight or without hard and realistic thinking. They must be solved eventually, however, if we are going to be able to realize our enormous productive potentialities and maintain full and efficient employment of all our resources. We are only doomed to disappointment if we place all our faith in monetary management or fiscal policies and ignore the problems raised by the decline in competition and the growth of restrictive policies. The problems to which I refer are not all new and they are not exclusively the problems of any political group. They are the basic problems which must be successfully met if we are to preserve our capitalistic system, and they will confront whatever group may have the responsibility for government.

Although I have been thinking mainly of the basic problems raised by the current recession, much of what I have been saying is applicable to

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the immediate problem of stopping the contraction and resuming the recovery. Two of the principal causes of the recession were excessive inventory accumulations and the failure of building construction, railroad and utility expenditures to increase sufficiently to offset the decline in the Government's contribution to community buying power. Considerable progress has been made since September in rectifying the inventory situation. Production has declined much more rapidly than consumption.

If consumer demand can be sustained, we may be hopeful that production may soon begin to increase. Local, state and Federal provision for the unemployed afford a support to consumer buying power that was lacking prior to 1933.

At the same time, it is highly desirable for business men, both in their own and in the public interest, to review carefully their present and prospective inventory, plant and equipment requirements. Further curtailment of expenditures for these purposes at the present time will mean that many lines of business will be physically unable to meet the orders that will come to them when the recovery movement is resumed. In order to expand their productive facilities to meet the demand, they will find themselves bidding against each other at advancing prices.

In addition to measures to sustain buying power and production, we need an impetus that will bring about an actual increase. For this, we must look primarily to the building industry. Building has demonstrated in the past its ability to move against a general downward trend if the relation of costs to rents is favorable for construction. In legislation now pending, the Federal Government proposes to bring about more favorable terms for financing housing both on a small and on a large scale. It has, among other things, taken steps to place the opportunity

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for acquiring a new home within the reach of people who can afford only a few hundred dollars down payment.

In order for this opportunity to be fully availed of, however, building costs should be lowered to around the levels of 1936. Business and labor organizations connected either directly or indirectly with the building industry can serve their own and the public interest by doing what they can to reduce unit costs and in this way increase their aggregate returns. Lower financing costs, and the mechanism proposed in the pending housing bill, for large scale housing production will also contribute to this end. Lower real estate taxes on new construction as well as lower land values would likewise greatly aid the housing program. In the more competitive parts of the building field, costs have already declined substantially.

Fundamental solution of the railroad problem is bound up with increasing traffic, with consolidations and elimination of duplicating facilities and with decreased costs. I trust that the importance of a building revival in this connection will not be lost sight of. I question whether any steps to help the railroads that would have the effect of increasing building costs or reducing farm income would be in the real interest of the railroads or of the general public.

Broadly speaking, I feel that the resumption of an orderly recovery depends upon the adjustment downward of those monopolistic or controlled prices and wage rates which still remain too high in relation to consumer purchasing power, and an adjustment upwards of such prices and wage rates as may be too low in relation to the cost of living. The policies of Government, agriculture, business and labor to be successful must be directed

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toward the objective of restoring and maintaining a better balanced economy that will make for a greater production and distribution of real wealth.

In conclusion, let me say that in my opinion the extent of the present recession will depend upon how rapidly the more serious maladjustments between prices and buying power are corrected and increased national income is created by the activity of private business. An adequate treatment of your particular problem of agricultural income must be a major part of a successful program of recovery. I feel that the Government in its policy of taxation and spending must adapt itself to changes in the national income created by private enterprise and, finally, I feel that the monetary authorities should exert their efforts to keep the availability, supply and cost of money at such a level as to encourage continuous expansion of the real income of the nation in goods and services and to prevent or moderate an expansion of monetary income in excess of the nation's productive capacity. I am confident that monetary authorities are prepared to contribute their full share to the end that the nation's economic health may be regained and preserved.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1937.

Dear Sir:

Referring to the Board's letter of November 23, 1937, R-116, subject, Holidays during December, you are advised that in accordance with an Executive Order issued by the President, the offices of the Board of Governors will be closed on Friday, December 24. The Washington telegraph office will be open, however, and the transit clearing through the Interdistrict Settlement Fund will take place as usual. There will be no Federal Reserve note clearing and no shipments of currency to Federal Reserve banks or agents on December 24.

Please notify your branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 16, 1937.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Under date of September 3 there was forwarded to you, as stated in the Board's letter R-71 of that date, a supply of blank forms for the use of State bank members and their affiliates in submitting reports as of the next call date. Inasmuch as the usual fall call for reports has not been made, the blank forms now in the possession of State bank members should be used in submitting the reports usually called for at the end of the year. In addition, however, it is desired that the banks report the amounts of their agricultural loans and farm real estate owned by them as of the next call date. For this purpose please send three copies of Form 105-f, a supply of which has been sent to you under separate cover, to each State bank member at the time it is formally notified of the next call for condition reports, with the request that a report thereon be submitted in duplicate at the same time that the condition report on Form 105 is submitted. The information called for by Form 105-f is the same as was called for by the two memorandum items which appeared at the bottom of page 4 of Form 105 on the June 30, 1937 call for condition reports.

It is suggested that the figures reported on Form 105-f as of the next call date be compared with the corresponding figures reported against the two memorandum items at the bottom of page 4 of the reports rendered as of June 30, 1937, in order to make sure that the figures reported for the two call dates appear to be comparable. One copy of the report on Form 105-f should be sent to the Board and the other copy retained by your bank.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 18, 1937.

SUBJECT: Summary Statement of Federal Reserve Bank Personnel.

Dear Sir:

In accordance with the usual practice, please furnish the Board with a summary statement showing the number and salaries of officers and employees of your bank (including branches, if any) as of December 31, 1937, made out in accordance with the attached form. The figures, which should not include any changes in either the number or salaries of officers or employees that become effective on January 1, 1938, will be published in the Board's 1937 Annual Report.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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R-135-a

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF THE
FEDERAL RESERVE BANK OF ______________________ (INCLUDING BRANCHES)

December 31, 1937

	Total officers and employees, including those whose salaries are reimbursed to the bank in whole or in part	Officers and employees (included in column 1) whose salaries are reimbursed to the bank in whole or in part(a)
Annual salary of President	$________	$________
Other officers:		
Number	________	________
Annual salaries	________	________
Employees, both permanent and temporary:		
Number (b)	________	________
Annual salaries	________	________

(a) Should represent aggregate of fractional amounts in the case of employees whose salaries are only partly reimbursed to the bank. For example, if 25% of the salary of an employee receiving $1,200 a year is reimbursed to the bank, .25 should be included in the computation of the "number" of employees, and the amount of salary reimbursed, $300, should be included in the computation of the annual salaries.

(b) In the case of part-time employees, i.e., employees who are regularly engaged for less than a full day, the "number" reported should represent the portion of the full day worked. For example, if an employee is regularly engaged for one-half of the usual working day, .50 should be included in the computation of the "number" of employees.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-136

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 18, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZKOW" - Treasury Bills to be dated December 22, 1937, and to mature March 23, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZKIT" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

December 18, 1937.

SUBJECT: 1938 Budgets for Federal Reserve banks.

Dear Sir:

It will be appreciated if you will mail to the Board as soon as practicable after January 1 a copy of the budget approved by your bank for its head office and each of its branches, if any, and for the head office and branches combined, for the calendar year 1938.

Since detailed figures of operating costs are compiled along functional lines by all Federal Reserve banks and since a better comparison can be made between expenses and budgets when the budgets are prepared in the same form in which expenses are reported, it will be appreciated if the 1938 budgets furnished to the Board are prepared along functional lines in accordance with the sample form, R-137-a, attached. The statements should show totals for each function in the functional expense report, Form E.

In addition, it is requested that budget statements be submitted on Form R-137-b and R-137-c showing the itemization of the budgets of the statistical and analytical and bank examination functions.

A supply of forms R-137-a, R-137-b, and R-137-c is inclosed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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SUMMARY OF BUDGET ESTIMATES, 1938

Federal Reserve Bank of______________ ____________________
(Indicate whether head office, branch or "combined" report)

Function	Expenses, Year 1937	Budget, Year 1938
General overhead - Controllable		
General overhead - Noncontrollable		
Provision of space (less income and distribution)		
Furniture and equipment		
Provision of personnel		
General service		
Postage		
Insurance		
Failed banks		
Loans, rediscounts, and acceptances		
Securities		
Currency and coin		
Check collection		
Noncash collection		
Accounting		
Legal		
Bank and public relations		
Auditing		
Bank examination		
Federal Reserve note issues		
Statistical and analytical		
Securities exchange		
Fiscal agency, custodianship, and depositary:		
Reimbursable expense		
Expense not reimbursable		
Foreign		
TOTAL (Column 1 must agree with Form E)		

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R-137-b

STATISTICAL AND ANALYTICAL BUDGET, 1938

Federal Reserve Bank of ______________________ ____________________
(Indicate whether head office, branch or "combined" report)

Expense Unit	Expenses, Year 1937	Budget, Year 1938
1. Statistical:		
a. Salaries - Officers*		
b. Salaries - Employees		
c. Retirement system contributions for current service		
d. Traveling expenses		
e. Printing, stationery, and supplies		
f. Telephone and telegraph		
g. Postage and expressage		
h. All other		
TOTAL		
2. Monthly letter:		
a. Printing and stationery		
b. Postage and expressage		
TOTAL		
3. Library:		
a. Salaries - Officers*		
b. Salaries - Employees		
c. Retirement system contributions for current service		
d. Traveling expenses		
e. Printing, stationery, and supplies		
f. Telephone and telegraph		
g. Newspapers, periodicals, books, binding, clipping service, etc.		
h. All other		
TOTAL		
TOTAL, STATISTICAL AND ANALYTICAL		

Number of copies of Monthly Letter printed for month of December, 1937 ____________

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this unit.

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R-137-c

BANK EXAMINATION BUDGET, 1938

Federal Reserve Bank of ______________________
(Indicate whether head office, branch or "combined" report)

Bank Examination Function	Expenses, Year 1937	Budget, Year 1938
a. Salaries - Officers*		
b. Salaries - Employees		
c. Retirement system contributions for current service		
d. Traveling expenses		
e. Printing, stationery, and supplies		
f. Telephone and telegraph		
g. Copies of bank examination reports		
h. All other		
TOTAL		
DEDUCT - EXPENSES CHARGED AGAINST BANKS EXAMINED		
NET TOTAL, BANK EXAMINATION		

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this function.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 18, 1937.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

SUBJECT: Holidays during January, 1938.

Dear Sir:

On Saturday, January 1 the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

The Board is advised that the following holidays also will be observed by Federal Reserve banks and branches during the month of January:

January 8 (Saturday) Anniversary of the Battle of New Orleans
New Orleans Branch

January 19 (Wednesday) Anniversary of the birthday of Robert E. Lee

Richmond	Louisville
Charlotte	Memphis
Atlanta	Dallas
Birmingham	El Paso
Jacksonville	Houston
Nashville	San Antonio

January 28 (Friday) Anniversary of the birthday of Jose Marti
Havana Agency

On January 8 and 19 the Federal Reserve bank offices affected will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for such offices on January 8 and 19 with your credits for the following business days. No debits covering shipments of Federal Reserve notes for the account of the head offices concerned should be included in your note clearing of January 19.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-139

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 18, 1937.

Dear Sir:

On December 14, 1937, Chairman Eccles addressed the Annual Meeting of the American Farm Bureau Federation in Chicago. The address related to problems which are of interest to the Federal Reserve System and it is believed that, if they have not already done so, some of the officers and directors of the Federal reserve banks may be interested in reading it. For that reason there are being forwarded to you today, under separate cover, ten copies of the address and additional copies will be sent to you should you desire to have them.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 20, 1937.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of November, 1937.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 1937.

Federal Reserve Bank	Number of Words Sent	Words sent by N. Y. chargeable to other F.R. Banks	Total Words Chargeable	Personal Services(1)	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses(2)	Credits	Payable to Board of Governors
Boston	33,345	948	34,293	$ 314.73	$ --	$ 314.73	$ 549.43	$ 314.73	$ 234.70
New York	99,536	--	99,536	996.67	--	996.67	1,594.72	996.67	598.05
Philadelphia	27,693	962	28,655	236.61	--	236.61	459.10	236.61	222.49
Cleveland	43,627	973	44,600	236.21	--	236.21	714.56	236.21	478.35
Richmond	46,043	929	46,972	181.50	--	181.50	752.56	181.50	571.06
Atlanta	54,962	922	55,884	276.07	--	276.07	895.35	276.07	619.28
Chicago	74,480	1,030	75,510	1,102.26	--	1,102.26	1,209.79	1,102.26	107.53
St. Louis	61,709	1,049	62,758	188.13	--	188.13	1,005.48	188.13	817.35
Minneapolis	25,329	922	26,251	135.55	--	135.55	420.58	135.55	285.03
Kansas City	59,834	927	60,761	259.18	--	259.18	973.49	259.18	714.31
Dallas	56,201	922	57,123	267.75	--	267.75	915.20	267.75	647.45
San Francisco	70,709	1,018	71,727	404.71	--	404.71	1,149.18	404.71	744.47
Board of Governors	399,603	--	399,603	1,472.80	10,969.53	12,442.33	6,402.26	12,442.33	--
Total	1,053,071	10,602	1,063,673	$6,072.17	$10,969.53	$17,041.70	$17,041.70	$17,041.70	$6,040.07

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.016021559) for business handled during the month.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 21, 1937.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

Dear Sir:

Recently the Federal Deposit Insurance Corporation advised the Board that it desires to have figures of deposits as of December 31, 1937 for each branch of insured banks; stating that figures of branches of national banks are obtainable from the Comptroller of the Currency, since national banks are required to furnish the Comptroller's office with separate condition reports for each of their branches; and that figures for nonmember insured banks will be obtained on special forms prepared by the Corporation; and requesting the Board of Governors to obtain similar figures for branches of State bank members of the Federal Reserve System. The Board has advised the Federal Deposit Insurance Corporation that it will obtain the desired information for branches of State member banks.

In this connection, the Board has decided to ask State bank members to furnish for each of their branches as of the next call date, condition statements similar, but in somewhat more condensed form, to those used by the Comptroller of the Currency in obtaining reports from branches of national banks. A copy of Form 105-h to be used for this purpose is attached, and a supply of the form has been sent to you under separate cover. The form should be executed in triplicate, a copy to be retained by the member bank for its files, a copy to be forwarded to the Board, and the original to be retained for the files of your bank.

In addition to your usual checking of condition reports at the Federal Reserve bank, please reconcile the number of branch reports received on Form 105-h with the number of branches shown in Schedule D of Form 105.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers of Monday, December 27, 1937.

December 23, 1937.

The Board of Governors of the Federal Reserve System has issued, effective December 31, 1937, an amendment to its Regulation F to provide that in States where collective investment of trust funds is permitted by State law, national banks may invest funds of various individual trusts in participations in a common trust fund, provided the amount so invested from any one trust does not exceed $25,000, or 10 per cent of the value of the assets of such common trust fund, whichever amount is less.

Regulation F has heretofore permitted national banks to make collective investment of funds of individual trusts only if such funds were too small to be invested separately to advantage, and the amendment now issued permits this to be continued under a minimum of regulatory requirements provided the amount so invested from any one trust account does not exceed $1,200.

The Board also amended subsections (b) and (c) of section 6 of Regulation F, in certain minor respects, with respect to the trust department committees already provided for in the regulation.

In the Revenue Act of 1936 Congress recognized the desirability, under proper safeguards, of permitting banks to operate common trust

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funds when it granted certain tax exemptions to common trust funds administered by any bank in conformity with rules and regulations prescribed for national banks by the Board of Governors. Some States have enacted legislation specifically authorizing the operation of common trust funds and in other States similar legislation has been considered.

In upholding and construing provisions of law relative to the exercise of trust powers by national banks, the courts have recognized that the regulation of the administration of trusts is a matter peculiarly within the province of the States. In issuing the present amendment, the Board has permitted the collective investment of funds of various trusts in common trust funds only when the laws of the State in which the particular national bank is located authorize or permit such investments by State banks, trust companies, or other corporations which compete with national banks.

Issuance of such an amendment was recommended by a special committee of the American Bankers Association, and the amendment was drafted after consultation with the committee and after submission of a tentative draft of the proposed regulation to and receiving criticisms and comments from that committee, all Federal Reserve banks and other interested groups.

The Board's regulations have been drawn specifically with a view to preventing common trust funds from being operated as investment trusts for other than strictly fiduciary purposes and to providing safeguards to prevent preferences or other inequities between trusts participating in common trust funds.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1937.

Dear Sir:

There are inclosed herewith six copies of amendments to the Board's Regulation F which have been approved by the Board to become effective December 31, 1937. Twenty-five additional copies are going forward to you under separate cover. The amendment to section 10(c) and the new section 17 have to do with the operation of Common Trust Funds by national banks for the collective investment of funds of separate trusts, and the amendments to subsections (b) and (c) of section 6 have to do with what persons may serve on trust department committees already provided for in the regulation. There is also inclosed herewith a copy of a press statement which will be released by the Board for publication in the morning papers of December 27, 1937.

As soon as practicable, you will be furnished with printed copies of Regulation F, as amended, and, in the meantime, you are authorized, on and after the date of the release of the press statement mentioned above, to furnish copies of the amendments to such interested parties as you deem desirable.

Please advise immediately by wire how many copies of the revised regulation you desire sent to your bank. The amendments will appear in the January issue of the Federal Reserve Bulletin.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Amend Regulation F by amending subsection (c) of section 10 and adding a new section 17.

SECTION 10. INVESTMENT OF TRUST FUNDS

* * * * * * * *

(c) Collective investment of trust[1] funds. -- Funds received or held by a national bank as fiduciary shall not be invested collectively[2] except as permitted in section 17 of this regulation.

* * * * * * * *

SECTION 17. COMMON TRUST FUNDS

(a) In general. -- Funds received or held by a national bank as fiduciary may be invested collectively in any Common Trust Fund established and maintained in accordance with the provisions of this section whenever the laws of the State in which the national

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[1]Unless the context otherwise indicates, the term "trust", as used in this section or in any other part of this regulation, refers to any fiduciary relationship which a national bank is authorized to enter into under the provisions of section 11(k) of the Federal Reserve Act.

[2]This does not prevent the bank from investing the funds of several trusts in a single real estate loan of the kind which could be made by the bank under the provisions of section 24 of the Federal Reserve Act, as amended, if the bank owns no participation in the loan and has no interest therein except in its capacity as fiduciary.

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bank is located authorize or permit such investments by State banks, trust companies, or other corporations which compete with national banks.

As used in this regulation the term "Common Trust Fund" means a fund maintained by a national bank exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as trustee, executor, administrator, or guardian[3].

The purpose of this section is to permit the use of Common Trust Funds, as defined in section 169 of the Revenue Act of 1936,[4] for the investment of funds held for true fiduciary purposes; and the operation of such Common Trust Funds as investment trusts for other than strictly fiduciary purposes is hereby prohibited. No bank administering a Common Trust Fund shall issue any document evidencing a direct or indirect interest in such Common Trust Fund in any form which purports to be negotiable or assignable. The trust investment committee of a bank operating a Common Trust Fund shall not permit any funds of any trust to be invested in a Common Trust Fund if it has reason to

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[3]As used in this regulation the term "guardian" means guardian or committee of the estate of an infant, incompetent, or absentee, by whatever name known in the State in which a particular national bank is located.

[4]For applicable provisions of the Revenue Act of 1936, see Appendix.

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believe that such trust was not created or is not being used for bona fide fiduciary purposes.

Common Trust Funds administered under this section shall be subject to the following requirements:

(1) Assets in a Common Trust Fund shall be considered as assets held by the bank as fiduciary;

(2) A bank administering a Common Trust Fund shall not invest any of its own funds in such Common Trust Fund and if a bank, because of a creditor relationship or any other reason, acquires any interest in a participation in a Common Trust Fund under its administration the participation shall be withdrawn on the first date on which such withdrawal can be effected in accordance with the provisions of this section;

(3) A bank administering a Common Trust Fund shall not have any interest[5] in the assets held in such Common Trust Fund, other than in its capacity as fiduciary, except to the extent permitted for a temporary period as provided in the immediately preceding paragraph.

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[5]A bank shall not be deemed to have an interest in assets in which collective investments are made merely because of the fact that the bank owns in its own right other stocks, or bonds or other obligations of a person, firm, or corporation, the stocks, or bonds or other obligations of which are among the assets of a Common Trust Fund.

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(b) Common Trust Funds for investment of small amounts. -- Subject to all other provisions of this regulation except subsection (c) of this section, cash balances received or held by a bank in its capacity as trustee, executor, administrator, or guardian, which the bank considers to be individually too small to be invested separately to advantage may be invested, with the approval of the trust investment committee, in participations in a Common Trust Fund, provided the total investment of the funds of any one trust in one or more such Common Trust Funds shall not exceed $1,200.

(c) Common Trust Funds for general investment. -- Subject to all other provisions of this regulation except subsection (b) of this section, funds received or held by a bank in its capacity as trustee, executor, administrator, or guardian may be invested in participations in a Common Trust Fund. All participations in such a Common Trust Fund shall be on the basis of a proportionate interest in all of the assets of the Common Trust Fund.

(1) Common Trust Fund to be operated under written plan. -- Each Common Trust Fund administered by a bank shall be established and maintained in accordance with a written plan (referred to herein as the Plan) approved by a resolution of the bank's board of directors and approved in writing by competent legal counsel. The Plan shall provide that the

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Common Trust Fund shall be administered in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System pertaining to the collective investment of trust funds by national banks, and shall contain full and detailed provisions not inconsistent with the provisions of such rules and regulations as to the manner in which the Common Trust Fund is to be operated, including provisions relating to the investment powers of the bank with respect to the Common Trust Fund, the allocation of income, profits and losses, the terms and conditions governing the admission or withdrawal of participations in the Common Trust Fund, the auditing and settlement of accounts of the bank with respect to the Common Trust Fund, the basis and method of valuing assets in the Common Trust Fund, the basis upon which the Common Trust Fund may be terminated, and such other matters as may be necessary to define clearly the rights of participants in the Common Trust Fund. A copy of the Plan shall be available at the principal office of the bank for inspection, during all banking hours, to any person having an interest in a trust any funds of which are invested in a participation in the Common Trust Fund; and upon reasonable request a copy of the Plan shall be furnished to such person.

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(2) Trust investment committee to approve participation. — No funds of a trust shall be invested in a participation in a Common Trust Fund without the approval of the trust investment committee. Before permitting any funds of any trust to be invested in a participation in a Common Trust Fund, the trust investment committee shall review the investments comprising the Common Trust Fund; and, if it finds that any such investment is one in which funds of such trust might not lawfully be invested at that time, funds of such trust shall not be invested in a participation in such Common Trust Fund.

At the time of making the first investment of funds of a trust in a participation in any Common Trust Fund, the bank shall send a notice of such investment to each person to whom an accounting ordinarily would be rendered.

(3) Common Trust Fund to be audited annually. — A bank administering a Common Trust Fund shall, at least once during each period of twelve months, cause an audit to be made of the Common Trust Fund by auditors responsible only to the board of directors of the bank. The report of such audit shall include a list of the investments comprising the Common Trust Fund at the time of the audit which shall show the valuation placed on each item on such list by the trust investment committee of the bank as of the date of the audit, a statement of purchases, sales and any other investment

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changes and of income and disbursements since the last audit, and appropriate comments as to any investments in default as to payment of principal or interest. The reasonable expenses of any such audit made by independent public accountants may be charged to the Common Trust Fund.

The bank shall, without charge, send a copy of the latest report of such audit annually to each person to whom an accounting of the trusts participating in the Common Trust Fund ordinarily would be rendered or shall send advice to each such person annually that the report is available and that a copy will be furnished without charge upon request.

(4) Value of assets to be determined periodically. -- Not less frequently than once during each period of three months the trust investment committee of a bank administering a Common Trust Fund shall determine the value of the assets in the Common Trust Fund. No participation shall be admitted to or withdrawn from the Common Trust Fund except on the basis of such valuation and on the date of the determination of such valuation or, if permitted by the Plan, within two business days subsequent to the date of such determination. No participation shall be admitted or withdrawn unless, in accordance with provisions of the Plan, prior to the date of the determination of such valuation, notice of intention to participate or to make such withdrawal shall have been given in writing to

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the bank administering the Common Trust Fund, or a written notation of the contemplated participation or withdrawal shall have been made in the records of the bank.

(5) Miscellaneous limitations. -- No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having an interest in the Common Trust Fund in excess of 10 per cent of the value of the assets of the Common Trust Fund, as determined by the trust investment committee, or the sum of $25,000, whichever is less at the time of investment. If the bank administers more than one Common Trust Fund, no investment shall be made which would cause the aggregate investment of funds of any one trust in all such Common Trust Funds to exceed such limitations. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one.

No investment for a Common Trust Fund shall be made in stocks, or bonds or other obligations of any one person, firm, or corporation which would cause the total amount of investment in stocks, or bonds or other obligations issued or guaranteed by such person, firm, or corporation to exceed

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10 per cent of the value of the Common Trust Fund, as determined by the trust investment committee, provided that this limitation shall not apply to investments in obligations of the United States or for the payment of the principal and interest of which the faith and credit of the United States shall be pledged.

No investment for a Common Trust Fund shall be made in any one class of shares of stock of any one corporation which would cause the total number of such shares held by the Common Trust Fund to exceed 5 per cent of the number of such shares outstanding. If the bank administers more than one Common Trust Fund no investment shall be made which would cause the aggregate investment for all such Common Trust Funds in shares of stock of any one corporation to exceed such limitation.

Any bank administering a Common Trust Fund shall have the responsibility of maintaining in cash and readily marketable securities[6] such part of the assets of the Common Trust Fund as shall be deemed by the bank to be necessary to provide adequately for the needs of participating trusts and to

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[6]A readily marketable security within the meaning of this section means a security which is the subject of frequent dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the security itself easy to realize upon by sale at any time.

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prevent inequities between such trusts. In any event, prior to any admissions to or withdrawals from a Common Trust Fund, the trust investment committee shall determine what percentage of the value of the assets of a Common Trust Fund is composed of cash and readily marketable securities; and if such committee determines that, after effecting the admissions and withdrawals which are to be made pursuant to notice given as required in subdivision (4) of this subsection, less than 40 per cent of the value of the remaining assets of the Common Trust Fund would be composed of cash and readily marketable securities, no admissions to or withdrawals from the Common Trust Fund shall be permitted as of the valuation date upon which such determination is made, except that ratable distribution upon all participations is not prohibited.

(6) Distribution upon withdrawal of participation. -- When participations are withdrawn from a Common Trust Fund, distributions may be made in cash or ratably in kind, or partly in cash and partly ratably in kind, provided that all distributions as of any one valuation date shall be made on the same basis. Before any distribution in cash is made, the trust investment committee shall determine whether any investment remaining in the Common Trust Fund would be unlawful for one or more participating trusts if funds of such trusts were being invested at that time; and no distribution shall

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be made in cash until any such unlawful investment shall have been eliminated from the Common Trust Fund either through sale, distribution in kind, or segregation as provided in the subdivision immediately following hereafter.

(7) Segregation of investments. -- If for any reason an investment is withdrawn in kind from a Common Trust Fund for the benefit of all trusts participating in the Common Trust Fund at the time of such withdrawal and such investment is not distributed ratably in kind it shall be segregated and administered or realized upon for the benefit ratably of all trusts participating in the Common Trust Fund at the time of withdrawal.

(8) Management of Common Trust Fund and fees. -- A national bank administering a Common Trust Fund shall have the exclusive management thereof and shall not charge a fee for the management of the Common Trust Fund, or receive, either from the Common Trust Fund or from any trusts the funds of which are invested in participations therein, any additional fees, commissions, or compensations of any kind by reason of such participation. The bank shall not pay a fee, commission, or compensation out of the Common Trust Fund for management. Nothing in this paragraph shall be construed as prohibiting a bank from reimbursing itself out of a Common Trust Fund for such reasonable expenses incurred by it in the administration

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thereof as would have been chargeable to the respective participating trusts if incurred in the separate administration of such participating trusts.

(9) Effect of mistakes. -- No mistake made in good faith and in the exercise of due care in connection with the administration of a Common Trust Fund shall be deemed to be a violation of this regulation if promptly after the discovery of the mistake the bank takes whatever action may be practicable in the circumstances to remedy the mistake.

NOTE: The reference in section 12 of Regulation F to "subsection (c) of section 10" will be changed appropriately, footnotes to the proposed amendments to the regulation and subsequent footnotes in the regulation will be numbered appropriately, and the present section 17 will be renumbered 18.

Amend the second sentence of subsection (b) of section 6 of Regulation F to read as follows:

"The acceptance of all trusts shall be approved by the board of directors or a committee appointed by such board, and the closing out or relinquishment of all trusts shall be approved or ratified by the board of directors or a committee appointed by such board; and such committee or committees shall be composed of capable and experienced officers or directors of the bank."

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Amend the first sentence of subsection (c) of section 6 of Regulation F by a footnote thereto reading as follows:

"It is contemplated that there shall be a committee the members of which shall have a continuity of responsibility for the discharge of the duties of the committee. However, alternates appointed by the board of directors may serve in place of regular members of the committee who are unable to serve on account of vacations, illness, or other good and sufficient reasons if the minutes of the committee show the reason for the service of such alternate in place of the regular member."

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APPENDIX

In the reprint of Regulation F, the following will be included in the Appendix to Regulation F under the following description:

There are printed below certain provisions of the Revenue Act of 1936 which are pertinent to some of the subject matter of this regulation.

SEC. 169. COMMON TRUST FUNDS.

(a) DEFINITIONS. - The term "common trust fund" means a fund maintained by a bank (as defined in section 104)-

(1) exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator, or guardian; and

(2) in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System pertaining to the collective investment of trust funds by national banks.

(b) TAXATION OF COMMON TRUST FUNDS. - A common trust fund shall not be subject to taxation under this title, Title IA, or section 105 or 106 of the Revenue Act of 1935, and for the purposes of such titles and sections shall not be considered a corporation.

(c) INCOME OF PARTICIPANTS IN FUND. - Each participant in the common trust fund shall include in computing its net income its proportionate share, whether or not distributed and whether or not distributable, of the net income of the common trust fund. The net income of the common trust fund shall be computed in the same manner and on the same basis as in the case of an individual. The proportionate share of each participant in the amount of interest specified in section 25(a) received by the common trust fund shall for the purposes of this Supplement be considered as having been received by such participant as such interest.

(d) ADMISSION AND WITHDRAWAL. - No gain or loss shall be realized by the common trust fund by the admission or withdrawal of a participant. The withdrawal of any participating

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interest by a participant shall be treated as a sale or exchange of such interest by the participant.

(e) RETURNS BY BANK. - Every bank (as defined in section 104) maintaining a common trust fund shall make a return under oath for each taxable year, stating specifically, with respect to such fund, the items of gross income and the deductions allowed by this title, and shall include in the return the names and addresses of the participants who would be entitled to share in the net income if distributed and the amount of the proportionate share of each participant. The return shall be sworn to as in the case of a return filed by the bank under section 52.

(f) DIFFERENT TAXABLE YEARS OF COMMON TRUST FUND AND PARTICIPANT. - If the taxable year of the common trust fund is different from that of a participant, the proportionate share of the net income of the common trust fund to be included in computing the net income of the participant for its taxable year shall be based upon the net income of the common trust fund for any taxable year of the common trust fund (whether beginning on, before, or after January 1, 1936) ending within the taxable year of the participant.

SEC. 104. BANKS AND TRUST COMPANIES.

(a) DEFINITION. - As used in this section the term "bank" means a bank or trust company incorporated and doing business under the laws of the United States (including laws relating to the District of Columbia), of any State, or of any Territory, a substantial part of the business of which consists of receiving deposits and making loans and discounts, or of exercising fiduciary powers similar to those permitted to national banks under section 11(k) of the Federal Reserve Act, as amended, and which is subject by law to supervision and examination by State or Federal authority having supervision over banking institutions.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1937.

SUBJECT: Monthly Report of Bank and Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of November in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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December 15, 1937.

TO The Board of Governors SUBJECT: Summary of Bank Relations Reports.

FROM Mr. Hammond,
Division of Bank Operations

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of November and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The attitude toward the Federal Reserve System

The reports contain interesting comment upon the preference of many banks for the correspondent relationship. Philadelphia mentions the case of a nonmember bank which maintains large balances with its metropolitan correspondents because through connections with those correspondents it has been enabled to secure valuable new business. It is unwilling to enter the System because reserve requirements would prevent the maintenance of the correspondent balances it feels essential to its own interest. Cleveland mentions the definite preference of a certain member bank for its correspondent relationships, though no reason for the preference is given. St. Louis reports that banks are attracted to the correspondent relationship because they receive immediate credit for check collection items and find the procedure of check collection simpler when handled through correspondents. Kansas City reports that banks, particularly in Kansas, esteem the correspondent relationship because it enables them to arrange loans for customers and bank officers which the bank itself could not make.

Banking conditions

Low returns and high operating costs continue to be a subject of complaint. In the East the desirability of housing loans is frequently mentioned, the evidence being that a considerable number of enterprising banks find the placing and servicing of insured mortgages profitable.

General economic conditions

Comment upon the slowing down of industrial activity is general. Agricultural crops of various kinds and in widely separate regions appear to have been abundant, but at the same time prices have been low. The result has been a large and active circulation of funds inadequate in volume however to cover expenses and debt retirement.

Excerpts from the reports follow: (The reports themselves are attached to the original hereof).

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Boston

During November visits were made to 41 country banks located in Massachusetts, Connecticut and Rhode Island.

A number of manufacturing plants of various sizes making textiles, shoes, hardware, small tools, and electrical equipment are located in the several sections visited. The extent to which these manufacturing concerns have been affected by the current business recession was the principal topic of conversation at the banks visited. In several communities devoted entirely to cotton spinning, mill operations had been entirely suspended and in others curtailed to the point of one or two days of operation a week. Somewhat the same condition prevailed in communities where the principal industry is the manufacture of shoes. At other points there had been a curtailment in the various industries of the number of operating hours per week, and reductions were general in the number of employees. Labor unrest was noted in several communities which heretofore had been practically free of labor trouble. The general tone of those who discussed the business situation was pessimistic. Retail trade in the several communities visited was reported to be only fair, and the information obtained was to the effect that the local merchants have not stocked heavily for the Christmas trade.

Practically all the banks visited reported a very light or no demand at all for credit, and officials of some of the smaller banks seemed somewhat discouraged over the prospects for profitable operation.

No unfavorable comments were made at any of the banks relative to the policies and administration of the Federal Reserve System or the operations of the Federal Reserve Bank of Boston.

New York

Steuben County, New York

General business conditions throughout the county are said to be less satisfactory than they were a year ago, due in part to a decline in farmers' income, and partly because of a reduction in employment in the industrial centers. Potato and bean crops have brought poor prices this year, but dairy farmers have been helped somewhat by large feed crops. Grape growers in the section around Keuka Lake obtained slightly higher prices for their wine grapes this year, but the crop was not as large as had been expected due to an early frost. All of the wineries are giving steady employment as this is their peak season. In the section around the village of Addison which is devoted largely to dairying, nine large gas companies have been drilling for gas, and since last spring have brought in twelve wells which have a daily flow of twelve to thirty million cubic feet. Experienced natural gas producers say this area is a proven gas territory and are now laying pipe lines, one of which has already been extended to the county seat, Bath, which is

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New York continued

about twenty-five miles north. Employment in the industrial centers of the county shows a decrease since last spring. The large glass works in Corning which employed about 3,300 people up until a month ago has been reducing its force and it is expected that about 600 will have been laid off by the end of the year, reducing its total number of employees to about 2,700. In the village of Painted Post, three miles west of Corning, the Ingersoll-Rand Company's branch plant is now employing 1,125 people as compared with 1,386 last June. This plant is said to have received three good sized orders recently which will enable it to give comparatively steady employment to the men now on its payrolls. The Erie Railroad, which maintains the largest of its repair shops and freight yards in the city of Hornell, has decreased its employment slightly during the last month. Construction of new homes is practically at a standstill throughout the county.

Ulster County, New York

The topic of conversation usually first introduced by bank executives was the condition of the security market over which all appear to be deeply concerned. In the majority of cases market value of securities is said to be currently less than, or approximately equal to, book value; but officers of six banks state that their lists still show some appreciation. United States government obligations compose, on the average, approximately 54 per cent of total bond portfolios of all commercial banks in this county.

Demand for loans in general continues light, only six of the fifteen banks reporting a fair to good demand for credit. The customary rate charged throughout the county is 6 per cent, but banks in the city of Kingston apparently reduce this rate in many cases to 5 per cent, and even to 4 per cent, in negotiating amortized mortgages and other loans secured by prime collateral. Several bankers made a point of expressing their satisfaction with the manner in which modernization loans under Title I of the National Housing Act are being liquidated, there having been no losses and few, if any, delinquencies. Comment on the Production Credit Association was also entirely favorable, one banker adding that both this agency and the Federal Farm Mortgage Corporation have been a great help to the community.

Hudson County, New Jersey

The principal industrial cities in Hudson County are Jersey City, Hoboken, Harrison, Kearny, and Bayonne, where plants and branch factories of many nationally known companies are located. Bankers in these various communities report that there is quite a definite slowing down in business activity, and payrolls are said to have decreased as much as 20 per cent as compared with three months ago, the heavy lines of industry being affected particularly. Bank officers in Harrison, where there are a number of large manufacturing concerns, say that this slowing up of business is

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New York continued

due not only to the falling off of new orders but also to the fact that officials and plant managers (with whom they have talked) are curtailing operations as a matter of caution, deeming it advisable to wait until some definite word or assurance is given as to the future policy of the Administration.

Philadelphia

In nearly every industrial community it was reported that there had been an appreciable decline in activity during the past few months. Business leaders were said to be fearful of the imposition of additional restrictions and taxes, and contend that industry cannot stand much more of either and that improvement cannot be expected until this situation is clarified.

There has been an absence of labor trouble in the sections covered by this report so that that factor has had little to do with this decline.

Agricultural conditions generally are considered fair. The prices received for crops this year were disappointing and a goodly portion of both the fruit and potato crops has been stored in anticipation of better prices during the winter.

Credit demand is not strong, in fact in many communities the total of loans is still declining. Deposits, other than those of a special nature, show an increase in most banks, although some bankers stated that the recent decline was beginning to be reflected in withdrawals by individuals and business men. Loan liquidation is reported to be satisfactory. Investment accounts were reported, in all but a few instances, to show depreciation. It was noted that the trend appears to be towards a further increase in holdings of government obligations.

Rentals are increasing and in some communities it was reported that there is a shortage of desirable homes. However, there is little being done to correct this condition, except that in one county there has been a considerable amount of residential building, due principally to the fact that the banks in that county have been strong advocates of the Federal Housing program. However, a considerable portion of this construction is in dwellings suitable only for summer occupancy. An increasing number of banks are granting personal loans or other types of amortized loans.

Several bankers complained of the tax burden. One banker presented an analysis of his bank's income and expenses for the years 1933 - 1936, which showed that, whereas in 1934 taxes paid amounted to slightly less than 3 per cent of gross income, in 1936 the amount paid was equivalent to 13¼ per cent of the gross income, and for the first six months of 1937 exceeded 12 per cent of the gross income, an amount greater than that

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Federal Reserve Bank of St. Louis

Philadelphia continued

carried into the undivided profits account. This bank has total resources of approximately $1,700,000. The cashier of another bank with resources of about $500,000 stated that taxes had increased to a point where they had become exorbitant. He said that they would approximate $2,000 for his bank this year.

The president of a non-member institution having deposits of about $26,500,000 stated that his directors did not expect to apply for membership until they had to, as they could not see where it would be of any benefit to them. This institution maintains large balances with several correspondent banks in New York and Philadelphia and would be unable to continue to do so, if it were to become a member of the System, as its reserve would have to be at the reserve bank and it could not afford to keep these other funds uninvested. These correspondent connections were said to have been very beneficial to this institution in obtaining new business from firms moving into the city from cities where this bank has correspondent relations and this institution has no intention of losing these contacts unless it is absolutely necessary.

Cleveland

In the northwestern part of Ohio deposits are stationary or in some cases show increases. The volume of loans is increasing by reason of loans to farmers for the purposes of purchasing feeder stock, for new construction, and for the purchase of farms. Bankers generally are not making new purchases of bonds. The tendency is to hold Governments and municipals.

Crop yields in this section were well below average by reason of unusually rainy weather in the late spring.

In the portions of Pennsylvania visited by our field representatives deposits appear to be increasing. Loans are up, largely by reason of increases in personal loans, automobile loans and the purchase of insured F. H. A. loans. The tendency to dispose of long-term bonds appears to be continued. Some banks are holding cash received from the sale of long-term issues for better investment opportunities while others are investing in short-term Governments and high-grade short-term domestics.

In the main the attitude of member banks was friendly, and they appear reasonably satisfied with membership. One State bank, which has been a member of the System for a relatively short time, stated that if they were forced to give up membership in the System or sever their relations with their correspondent bank they would prefer to do without System membership. The officers are not yet completely "sold" on membership and it is understood that an important factor inducing them to join the System was the escape from Federal social security taxation.

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Cleveland continued

Another State member bank with a capital structure of $150,000 and deposits of $450,000, has expressed a desire to withdraw from membership because of the increase in reserve requirements.

The attitude of non-member banks visited last week was friendly but they are generally uninterested in membership. Some of those with deposits over $1,000,000 expressed the thought that with the probability of further revision of banking laws before 1941, the entire situation will be changed by that time. They prefer to "mark time" for the present.

In many instances it was apparent that in the minds of the bankers, the Federal Reserve System is considered an agency of the administration, and a part of it. This is seemingly one feature which contributed to the indifference towards membership.

Many bankers are concerned as to what the attitude of supervisory authorities will be in the matter of requiring write-downs in cases where bond depreciation is substantial.

There is vigorous opposition to Government owning of Federal reserve banks as provided in the Patman Bill, on the ground that further centralization of banking control in Washington would have an adverse effect on banking and business generally.

Richmond

A certain nonmember institution in Virginia, with two city branches, has grown rapidly in the last year or so, due in a measure to the fact that it is not a member of the local Clearing House Association and not subject to rules of the association concerning the payment of interest on time deposits and in other respects. This bank has talked of membership in the System on several occasions, and recently, at the request of the institution, one of our representatives made a special visit to the head office to discuss the questions involved. Briefly, the bank appears to wish to obtain the advantages of membership without relinquishing any of its present freedom of action. It is unlikely that favorable action will be taken by the subject bank at this time.

Tobacco growers in our district appear to be in a favorable position, with comparatively large yields of tobacco, selling at prices which are rather consistently higher than a year ago. The markets in the so-called "old belt" in Virginia and North Carolina will close on December 15th for the holiday season, reopening on January 11, 1938. Tobacco manufacturing in our district, as indicated by official reports, show slight declines in all departments, compared with last year, except in the manufacture of cigarettes. In this instance, current figures, when compared with last year, show an increase in production of 5.2 per cent.

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Richmond continued

The situation in cotton textiles has shown no improvement, and it is now reported from authoritative sources that cotton textile mills generally in North Carolina average about 50 per cent of normal operations. Until a short time ago, the textile situation in South Carolina appeared to be in better position than in North Carolina, but as the present period continues this apparent preferential position of the South Carolina textile mills has about disappeared. The inventory situation is a question of concern to the industry and to others interested. One textile manufacturer, at the head of a substantial chain of mills, who is also a member banker, writes us that even though there should be an upturn in business he does not see how the cotton mills generally can make much headway for the next three to six months. He writes of the heavy inventories, which nearly always have an unfavorable effect on prices so that the prospective profit is absorbed.

Current reports from furniture manufacturing business show little change, with new orders for October, 1937, approximately 30 per cent less than in October, 1936. It is reported that retail furniture houses have been forced to repossess a large amount of furniture which they naturally hope to sell again before they are actively in the market for new goods.

The lumber industry, which is a considerable item in parts of our district, has suffered from reduced operations in furniture manufacturing and building activity.

The peanut crop is an important item in our district, and from best information obtainable the current crop will yield from 10 to 15 per cent in quantity better than the 1936 crop. Prices are off, however, and it is said that the total income from the crop will be less this year than in 1936. The peanut industry in our district reports increasing competition with other Southern states.

The apple crop for the current year will yield twice the number of bushels as compared with 1936. A large percentage of the crop is moving into storage on account of the unfavorable market prices. Virginia grown apples have been exported to British markets in former years in amounts approximating 40 to 50 per cent of the commercial apple crop, but such shipments have decreased materially since the Ottawa pact of 1932 became effective.

The unemployment situation has been greatly aggravated, notwithstanding the increase in employees necessary to conduct the Christmas trade. Harvesting is at an end for all practical employment purposes; textile manufacturing concerns are averaging perhaps three days per week; other manufacturing concerns are curtailing production and consequently payrolls.

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Richmond continued

Reports throughout the district indicate that local merchants report further decline in retail trade and there is apparently a noticeable switch to buying in lower-price stores.

Atlanta

State of Georgia

Practically all of the banks visited during the month of November are located in cities where group meetings of the Georgia Bankers Association were held.

The principal topics discussed at these Group meetings were tax revision programs for the State of Georgia, increased hog and cattle production, cotton control and soil conservation, and service charge schedules.

The decline in the price of cotton was usually the topic of conversation at informal gatherings of the bankers attending the meetings. It was the consensus of opinion that the cotton planter, as a general rule, will realize a sufficient sum from a sale or from a loan obtained on his crop to liquidate his indebtedness to the banks, but that after the payment of bank loans the farmer will have little or nothing left to apply on indebtedness he might have contracted at mercantile establishments or for household necessities or farm machinery. This situation, of course, raises the question as to whether these farmers who are not able to liquidate current indebtedness are going to be able to obtain funds for the planting of winter crops and finance preparations for next year's operations. There is some speculation as to whether there will not be a large number of farms left abandoned by removal of the occupants to cities, where they will seek employment rather than run the risk of attempting to farm another year without assurance of obtaining funds for farm operations.

It was also learned that some of the smaller banks, located in rural sections, are being compelled to liquidate their loan portfolios through partial payments to a greater extent than has been the case for several years. It is understood that the low price now being received for cotton seed is responsible for the tenant farmers being forced to request the banker to let them retain a small portion of the proceeds of the sale of cotton for use toward current expenses, whereas it is customarily true that this type of farmer is able to supply his needs from funds obtained through the sale of cotton seed.

Chicago

Calls on member and nonmember banks were made mainly in Indiana and Wisconsin, although a few were made in Iowa and Illinois. Ten of the banks

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Chicago continued

visited were recently admitted to the System - most of them expressed themselves as being satisfied with their membership, and stated they were making use of the services offered by the Federal Reserve bank. One banker, however, whose bank joined the System about a year ago, said that he felt membership was rather expensive, as it had been necessary for them to dispose of earning assets in order to meet reserve requirements.

In discussing Regulation A with one of our member bankers, the comment was made with respect to loans under Section 10b that while there might be unusual situations or instances where the Federal Reserve bank would be warranted in accepting non-liquid assets as collateral, it was felt that extreme care should be exercised.

The majority of banks report deposits increasing with very little change in loans. Some referred to their bond depreciation and expressed concern over the future of the bond market.

A number of calls were made on banks which are not on our par list with the idea in mind of having them placed thereon. As a result, several promised to consider the matter and three have definitely been added. Most of them, however, feel they cannot afford to give up the revenue from exchange charges.

Membership has been discussed with a number of the banks and several appear to be excellent prospects.

Generally, there is a report of a slowing up of business. This is particularly true in manufacturing towns with payrolls down from the October figure, although in two instances it was reported that new industries coming into the town had offset any unemployment caused by reductions in force in existing plants. No abnormal inventories are reported; some a little higher than might be desired, but simply a question of working them off, and merchants are not buying except on a "hand to mouth" basis. In one town visited the statement was made that during the first half of 1937 at least 100 residences had been erected, but about June this work ceased very abruptly due to high cost of materials and labor and that there is practically no building going on at this time. The feeling among local business men and industrialists seems to be one of caution rather than of fear.

St. Louis

Except in the fruit growing and oil producing sections, general business conditions in Arkansas show a sharp recession, because of the decline in the price of cotton. At the opening of the season 10½ cents per pound was the prevailing price, but as ginning proceeded it became evident that a large overproduction existed, and prices began to steadily decline, finally falling to 6½ cents. However, as loans could be secured from Government

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St. Louis continued

agencies at from 7 to 9 cents a pound, sales ceased, and that condition continues to prevail.

When cotton prices fell below 8 cents, the recession in mercantile business developed. Wholesale concerns and some manufacturing plants, notably lumber mills, are now involved in the adverse effects.

Harvests of corn and hay were uniformly excellent throughout Arkansas and Southern Missouri. Farmers generally have an abundant forage crop with which to meet their needs for the next few months. In the fruit belt of Northwest Arkansas splendid crops of apples and grapes netted the growers a large amount of cash in spite of the low prices which prevailed. In the same area tomatoes and beans were processed in large quantities by canning factories, though a large portion of these products are still held in warehouses.

In the oil producing section of Arkansas there has been a consistent campaign of development work and results are proving satisfactory. A number of producing wells have been brought in, and the volume of oil has more than offset the inevitable decline in production in older districts. Drilling continues on various new prospects despite the tremendous cost of operations in a field where a depth of seven or eight thousand feet is sometimes necessary. No recession in business is in evidence in this oil area.

Banks in Missouri and Arkansas have not yet been adversely affected by the decline in mercantile business; in most instances actual increases in deposits are reported. There is very little local demand for loans. In the meantime, many Arkansas bankers are using idle funds for Government cotton loans, which appeal to them as a desirable short-term investment.

Sharply divergent opinions prevail regarding future business conditions, but almost without exception bankers in the cotton section feel that some form of compulsory control of cotton production must be enacted if that important Southern industry is to be extricated from its present chaotic condition.

Curtailment or discontinuance of FRB check collections by a few members was said to be because of immediate credit and simplification of the work when handled through correspondents, and not because of any dissatisfaction with the Reserve bank. The increasing number of nonpar points was also given as a reason for curtailment of check collections.

Officers of a member in Southwestern Missouri deplored the inroads being made on the par collection system, and regret that no course of action has been devised to check them. Reserve Bank officers visited four nonmember banks in an effort to keep them on the par list. One wished to

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St. Louis continued

withdraw because neighboring banks are charging its customers for cashing their checks, but it promised to defer action until it had had an opportunity to discuss the matter with the F.D.I.C. examiner. In another case the importance of revenue was the deciding factor.

Minneapolis

Group Meetings--North and South Dakota

It is apparent that the Banking Department of South Dakota is having its problems, for eight or nine of some of the smaller banks in that State are slated for suspension. These aforementioned institutions are all members of the Federal Deposit Insurance Corporation.

The Superintendent of Banks of North Dakota commented on the fact that five paying and receiving stations are now in operation in the State. He assumed the attitude that these stations could not be operated on a profitable basis, and in line with that assumption, he definitely discouraged bankers from becoming interested in paying and receiving stations. He stated further that the decision of the Commission in granting permission to banks to operate such stations, was based wholly in the interest of the public, - whether or not the necessity existed for such a station. He stated also that the Federal Deposit Insurance Corporation was reluctant to give its permission to this modified type of branch banking, unless the bank had a sound capital structure of not less than $35,000.

Although the Federal Reserve Bank of Minneapolis has now developed a friendlier feeling among the North Dakota bankers as a direct result of personal contacts with them in their own banks, at group meetings, and state conventions, nevertheless there does not seem to be the close friendship that exists among the bankers of South Dakota and Minnesota. However, it seems probable that continued personal contacts with the North Dakota bankers will sooner or later break down any barriers which may now exist.

Kansas City

During the month of November there was considerable activity in various states of this District in regard to certain national legislation affecting banks. Group and regional meetings were numerous and many resolutions were proposed and adopted. Probably the most voluble sentiment was in relation to the Patman Bill. The belief is expressed that the ultimate result of such legislation would be a unified banking system that would mean the end of the present dual system. The belief is also expressed that it would take the control of our banking system out of the hands of the present diversified personnel of business men, bankers, stockmen, and farmers. There is particular objection expressed to the provision

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Kansas City continued

in the bill that would permit the Board of Governors to increase or decrease reserve requirements without limitation. The uneasiness on this point undoubtedly grows out of present experience, for there is still considerable resentment against recent increases in reserve requirements. Bankers feel that their earning power has been restricted as they assume the additional reserves would have been invested in Government securities. But they seem especially dissatisfied with their balances with city correspondents as they feel a proper relation with these correspondents is essential in taking care of certain types of borrowers in their communities. Practically all of the Kansas banks desire to carry, in addition to the reserve with the Federal Reserve Bank, a reasonably satisfactory account with their city correspondents, so that customers who cannot be accommodated by the local bank may be referred to the city correspondent, and in a number of instances the banker may desire accommodation from the city correspondent.

Meetings of bankers during the month of November also brought to the surface much of the old opposition to branch banking. Here again the belief is expressed that it would destroy the dual banking system and opposition is especially strong to any legislation that would permit branch banking across state lines.

Many bankers are at a loss to understand why deposits are declining. A considerable number report an increase in loans. In Oklahoma government cotton loans are a matter of great current interest. Wyoming bankers continue to report that conditions in that area are good. Bankers from that state report that the policy adopted a few years ago of requiring sheepmen to operate on a budget has proved its worth, not only to banks but to the sheepmen as well. In Kansas bankers are showing considerable interest in studies of operating expenses of banks. Great effort is being made in that state to get bankers to lay their own operating results alongside that of group experience in order that they may see the weak places in their own management. Immediate results of such a campaign of education of necessity cannot be spectacular, but the people in Kansas who have this work in hand believe that steady pressure of this kind over considerable periods of time will produce far-reaching results.

Dallas

East Texas

East Texas was found to be in a fairly satisfactory economic condition, despite the setbacks caused by recent price recessions in the markets for some of its basic products, particularly cotton. Money placed in circulation by the large yield of this crop, consisting both of proceeds of sales and proceeds of government loans, has materially

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Dallas continued

augmented this section's income from other leading products, including oil and lumber, and on the whole the banks and producers are taking a cheerful view of the situation.

North Texas

Banks in the "black land" belt of North Texas report conditions in that area as being generally satisfactory. However, some are still complaining bitterly of the unconscionable competitive tactics which they say are being pursued by certain local Production Credit Associations in a persistent effort to divert and capture valuable credit business that legitimately belongs to the banks. The situation has created widespread indignation among country banks and there is a growing sentiment that legislative action is acutely needed to restrict the loans of these government agricultural credit agencies to borrowers who can show inability to obtain credit accommodations at reasonable rates from commercial banking institutions, thus conforming to the government's avowed desire to transfer normal credit extension to private lending agencies as rapidly as possible.

General approval was voiced by the visited bankers of the actions taken by the Board of Governors this year for the furtherance of recovery and the mobilization of money and credit for that purpose. The president of a prominent North Texas bank commended the tendency of the Board of Governors to publicize the purposes and objectives of the various measures and policies adopted by it in the interest of the economic situation. He commented particularly upon Mr. Szymczak's recent public addresses, and those made by other members of the Board in recent months, and stated that as a result of these utterances he has obtained a much better understanding of the objectives of Federal Reserve policy and approves them. Other North Texas bankers commented most favorably upon Governor Davis' address to the Dallas Clearing House Association on November 18.

San Francisco

San Joaquin Valley, California.

From observations and conversations November 4th to 6th, we found that conditions throughout the San Joaquin Valley were generally good.

The raisin crop was of high quality. Prices should return fair profits to the growers.

Cotton yield has been exceptionally good. Prices have been unsatisfactory. Considerable uneasiness was expressed over the fact that buyers were inactive.

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San Francisco continued

Deposits generally in the banks have been increasing, and officers complained of their inability to obtain good loans, stating that there was a lack of demand.

Palo Verde Valley, California

Alfalfa growers in good shape.

Poor cotton crop.

Good tourist crop.

Owing to past vicissitudes, this district is just about keeping its head above water.

Northern Arizona

Cattle and sheep men have had a successful year.

Tourist crop not quite up to expectations.

Reduction in copper mining activities will have an effect on areas tributary to the mines.

Business activities have slackened the last few months, but are estimated to be running at about last year's level.

Considerable diminution in building activities this year as compared with last year.

Rains needed.

Salt River Valley, Arizona

Bumper agricultural crops.

Excellent cotton crop but pickers are badly needed. Bulk of the cotton in this area is largely grown by big operators, and opinion is advanced that probably two-thirds of the crop was contracted at a price around 13 cents.

Reduction in copper mining activities will affect this area.

Considerable reduction in building activities.

Business has receded from the high point reached earlier in the year.

Good tourist crop. Rain is needed.

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PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

NOVEMBER, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	41	--	41	2	*	None	--
New York	101	41	142	7	2,197	3	660
Philadelphia	69	22	91	4	1,130	4	690
Cleveland	106	122	228	3	1,532	2	115
Richmond	60	44	104	7	895	None	--
Atlanta	24	11	35	6	650	None	--
Chicago	41	56	97	3	3,400	3	425
St. Louis	39	26	65	2	750	3	1,590
Minneapolis	36	18	54	11	620	3	340
Kansas City	2	2	4	9	2,505	3	300
Dallas	42	--	42	5	460	None	--
San Francisco	42	12	54	15	1,434	None	--

*Attendance not reported.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers, Friday, December 24, 1937.

The following summary of general business and financial conditions in the United States, based upon statistics for November and the first three weeks of December, will appear in the January issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

In November, volume of industrial production continued to decline sharply, and employment and payrolls also decreased. During the first half of November commodity prices declined further but for the past month they have been steady.

Production and employment

Volume of industrial output, as measured by the Board's seasonally adjusted index, declined from 103 percent of the 1923-1925 average in October to 90 percent in November, reflecting chiefly a sharp reduction in the manufacture of durable goods. There was a further curtailment of activity at steel mills and output for the month was at a rate of 38 percent of capacity, a decline of one-third from October. In the first three weeks of December steel production was at about 28 percent of capacity. Output of lumber and plate glass also declined substantially in November, and automobile production showed considerably less than the usual seasonal increase. Production of nondurable goods, which had decreased by a substantial amount earlier this year, declined further in November, reflecting a continued reduction in output of textiles and shoes, partly offset in the

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total by an increase in activity at sugar refineries. Output of minerals, as well as manufactures, declined in November. There were marked decreases in output of bituminous coal and in iron ore shipments, while crude petroleum production continued in large volume.

Total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed little change in November and the first half of December. Awards for privately-financed projects declined, reflecting chiefly a further reduction in residential building, while contracts for publicly-financed work increased.

Employment and payrolls at factories showed an unusually sharp decline between the middle of October and the middle of November, and there were decreases also in the number employed in trade and other nonmanufacturing lines. The Board's seasonally adjusted index of factory employment was at 94 percent of the 1923-1925 average in November as compared with a level of 102 last summer and 96 in November last year. In the steel, machinery, lumber, and textile industries the number employed decreased by substantially more than the usual seasonal amount, and there was some decline at automobile factories, although an increase is usual at this season. There were declines also in the seasonally adjusted indexes for most other lines, except foods and tobacco which showed little change.

Agriculture

Department of Agriculture estimates recently issued indicate that most crops will be about the same size as forecast earlier but that cash farm income will be lower than had been anticipated, largely because of price declines both for crops and livestock. Cash income in 1937 is

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expected to be $8,500,000,000, as compared with $7,918,000,000 in 1936. The increase over a year ago is due primarily to increased income from marketings of wheat, tobacco, and fruits and to larger Government payments.

Distribution

Distribution of commodities to consumers, which earlier had been maintained, declined slightly in November. There was a slight decline in sales at department stores, and mail order sales decreased considerably, while sales at variety stores showed little change. Preliminary information for the first half of December indicates that department store sales increased by approximately the usual seasonal amount.

Freight-car loadings declined by considerably more than the seasonal amount in November and the Board's adjusted index for that month was 71 percent of the 1923-1925 average as compared with 76 percent in October and an average of 81 percent in the first half of the year. The decline from October to November reflected principally marked decreases in loadings of coal and miscellaneous freight.

Commodity prices

The general level of wholesale commodity prices, which had declined sharply from the latter part of September to the third week of November, has shown little change since that time. Prices of nonferrous metals, leather, wool, textile yarns, and finished cotton goods have declined somewhat further in this period, while steel scrap, hides, rubber, cotton, print cloths, and bituminous coal have recently shown some advance.

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Bank credit

Excess reserves of member banks showed a small decline but for the first three weeks of December remained somewhat over $1,000,000,000. The increase in demand for currency during December has been smaller than usual, reflecting largely the effects of the recent sharp decline in business activity and payrolls.

Total loans and investments of reporting member banks in 101 leading cities increased somewhat during the four weeks ending December 15, reflecting a growth of $190,000,000 in holdings of United States Government obligations, mostly in New York City. A factor in this increase was the purchase by banks of the December 15 issues of Government securities. Commercial loans, which had begun to decline in October, showed a further reduction.

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R-146

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1937

SUBJECT: Functional Expense Reports

Dear Sir:

Under date of June 11, 1937 the Board asked Mr. Harrison, Chairman of the Conference of Presidents, to appoint a committee of senior Federal Reserve bank officials to review suggested changes in the functional expense report, Form E, and in the manual of instructions governing its preparation, submitted to the Board in response to its letter, B-1206, of March 27, 1937, and accumulated by the Board's representatives during the course of the surveys made for the purpose of reviewing the methods of allocation followed by the Federal Reserve banks in preparing the functional expense reports. Mr. Harrison appointed Mr. C. E. Earhart, Cashier, Federal Reserve Bank of San Francisco, Mr. L. R. Rounds, Vice President, Federal Reserve Bank of New York, and Mr. J. S. Walden, Jr., First Vice President, Federal Reserve Bank of Richmond, as a committee for this purpose.

The above-mentioned committee met in Washington on November 8 and 9, 1937, and reviewed all the suggested changes in the Manual of Instructions and in Form E, and following the meeting of the Committee Form E and the Manual of Instructions governing its preparation were revised, effective January 1, 1938, in accordance with the action taken by the Committee.

There are being forwarded to you under separate cover complete sets of the Manual and the remaining number of copies requested will be forwarded shortly after the first of the year. Form E is being reprinted and the number of copies requested for 1938 will be forwarded to you as soon as received from the printer which should be in the course of the next few days.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1937.

Dear Sir:

There is attached a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal reserve banks in an amount equal to two hundred and eighty-five thousandths of one per cent (.00285) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks as of the close of business December 31, 1937, to defray the estimated expenses and salaries of the members and employees of the Board from January 1 to June 30, 1938.

The resolution also contains instructions with regard to the manner in which the payments on the assessment shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R-147-a

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1938, it is necessary that a fund equal to two hundred and eighty-five thousandths of one per cent (.00285) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, That:

(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to two hundred and eighty-five thousandths of one per cent (.00285) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business December 31, 1937.

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on January 3, 1938, and March 1, 1938, respectively.

(3) Every Federal reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 1937.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZKUP" - Treasury Bills to be dated December 29, 1937, and to mature March 30, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZKOW" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 29, 1937.

SUBJECT: Earnings and Dividends Reports of State Bank Members, Form 107.

Dear Sir:

There have been forwarded to you today under separate cover copies of Form 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending December 31, 1937. The form is identical with the one that was used in submitting reports for the semiannual period ended June 30, 1937.

Very truly yours,

S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1937

SUBJECT: Forms for use during 1938

Dear Sir:

There are being forwarded to you today under separate cover, the number indicated of the following forms for use at your bank during 1938:

Form 38, copies

Form 95, copies

Form 96, copies

Form 96a, copies

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 31, 1937.

SUBJECT: Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements.

Dear Sir:

There are inclosed copies of pages 6, 13, 14, 20, 22 and 26 of the Board's Manual of "Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks" as revised for use in 1938. Additional copies of these pages are being forwarded to you under separate cover.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For release in morning newspapers
of January 1, 1938.

December 31, 1937.

The Board of Governors of the Federal Reserve System today announced the following designations and appointments of chairmen and deputy chairmen of the Federal reserve banks for the year 1938, and directors of Federal reserve banks and branches for the terms specified:

FEDERAL RESERVE BANK OF BOSTON

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. F. H. Curtiss of Boston
DEPUTY CHAIRMAN: Mr. H. S. Dennison of Framingham, Massachusetts

FEDERAL RESERVE BANK OF NEW YORK

DEPUTY CHAIRMAN: Mr. Owen D. Young of New York
CLASS "C" DIRECTOR:
For three-year term ending December 31, 1940: Mr. Owen D. Young of New York

Buffalo Branch of the Federal Reserve Bank of New York

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. Howard Kellogg of Buffalo

FEDERAL RESERVE BANK OF PHILADELPHIA

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. R. L. Austin of Philadelphia
DEPUTY CHAIRMAN: Mr. T. B. McCabe of Chester, Pennsylvania

FEDERAL RESERVE BANK OF CLEVELAND

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. E. S. Burke, Jr., of Cleveland
DEPUTY CHAIRMAN: Mr. G. C. Brainard of Youngstown, Ohio
CLASS "C" DIRECTOR:
For three-year term ending December 31, 1940: Mr. G. C. Brainard of Youngstown, Ohio

Cincinnati Branch of the Federal Reserve Bank of Cleveland

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. S. B. Sutphin of Cincinnati

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FEDERAL RESERVE BANK OF CLEVELAND (con't)

Pittsburgh Branch of the Federal Reserve Bank of Cleveland

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. H. S. Wherrett of Pittsburgh

FEDERAL RESERVE BANK OF RICHMOND

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Robert Lassiter of Charlotte, North Carolina
DEPUTY CHAIRMAN: Mr. W. G. Wysor of Richmond
CLASS "C" DIRECTOR:
For three-year term ending December 31, 1940: Mr. Robert Lassiter of Charlotte, North Carolina

Baltimore Branch of the Federal Reserve Bank of Richmond

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. W. F. Roberts of Baltimore

Charlotte Branch of the Federal Reserve Bank of Richmond

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. G. M. Wright of Great Falls, South Carolina

FEDERAL RESERVE BANK OF ATLANTA

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. F. H. Neely of Atlanta
CLASS "C" DIRECTOR:
For three-year term ending December 31, 1940: Mr. Donald Comer of Birmingham, Alabama

Birmingham Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. E. L. Norton of Birmingham

Jacksonville Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. B. W. Haynes of Jacksonville

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FEDERAL RESERVE BANK OF CHICAGO

DEPUTY CHAIRMAN: Mr. R. E. Wood of Chicago
CLASS "C" DIRECTOR:
For three-year term ending December 31, 1940: Mr. F. J. Lewis of Chicago

Detroit Branch of the Federal Reserve Bank of Chicago

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. A. C. Marshall of Detroit

FEDERAL RESERVE BANK OF ST. LOUIS

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. W. T. Nardin of St. Louis

Little Rock Branch of the Federal Reserve Bank of St. Louis

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. I. N. Barnett, Jr., of Batesville, Arkansas

FEDERAL RESERVE BANK OF MINNEAPOLIS

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. W. B. Geery of Minneapolis

Helena Branch of the Federal Reserve Bank of Minneapolis

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. H. D. Myrick of Square Butte, Montana

FEDERAL RESERVE BANK OF KANSAS CITY

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. J. J. Thomas of Seward, Nebraska

Denver Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. A. K. Mitchell of Albert, New Mexico

Oklahoma City Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. Lee Clinton of Tulsa, Oklahoma

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FEDERAL RESERVE BANK OF KANSAS CITY (con't)

Omaha Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. W. H. Schellberg of Omaha, Nebraska

FEDERAL RESERVE BANK OF DALLAS

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. J. H. Merritt of McKinney, Texas

El Paso Branch of the Federal Reserve Bank of Dallas

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. J. B. Martin of Tucson, Arizona

Houston Branch of the Federal Reserve Bank of Dallas

BRANCH DIRECTOR:
For three-year term ending December 31, 1940: Mr. G. G. Chance of Bryan, Texas

FEDERAL RESERVE BANK OF SAN FRANCISCO

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. A. O. Stewart of San Francisco

Los Angeles Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. C. V. Newman of Santa Ana, California

Portland Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. G. T. Gerlinger of Portland

Salt Lake City Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. H. S. Auerbach of Salt Lake City

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FEDERAL RESERVE BANK OF SAN FRANCISCO (con't)

Seattle Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. C. F. Larrabee of Bellingham, Washington

Spokane Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:
For two-year term ending December 31, 1939: Mr. S. A. Easton of Kellogg, Idaho

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Federal Reserve Bank of St. Louis

S-12

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 8, 1937.

SUBJECT: Reports of Violations of Criminal Provisions of the Banking Laws of the United States.

Dear Sir:

In its letters of April 4, 1923 (X-3683) and January 22, 1936 (X-9459), the Board requested that the Federal reserve agents report to the local United States Attorneys and to the Board for submission to the Department of Justice all cases of apparent violations of the criminal provisions of the banking laws of the United States coming to their attention in the performance of their duties, involving State member banks or Federal reserve banks.

The Board has recently given careful reconsideration to its policy in regard to the reporting of misdemeanors and is of the view that a Federal reserve bank, in determining whether or not to report the facts of any such case to the local United States Attorney, should give consideration to the question whether the making of such report would be desirable or undesirable in the public interest or would serve any useful purpose in view of the importance of the case and all of its facts and circumstances. The bank should then report or not report the matter in the exercise of a sound discretion. In every case in which such a report is not made, a complete record of the facts and circumstances of the case should be preserved in the files of the Federal reserve bank for review by the Board's examiners.

The above applies only to misdemeanors and not to felonies, however, and the Federal reserve bank should report to the local United States Attorney every case in which facts come to the bank's attention from which it appears probable, even though it is not entirely clear, that a violation of the banking laws constituting a felony may have occurred. In this connection, it is suggested that counsel for the Federal reserve bank be consulted on doubtful questions which may arise from time to time, both in respect to the question whether the facts of a particular case may constitute a

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felony or a misdemeanor and in regard to other aspects of the matter. In every case in which a report is made to the local United States Attorney, whether of a felony or of a misdemeanor, three copies of the report should be forwarded to the Board in order that the Board may transmit copies to the Attorney General of the United States.

This letter relates to the manner of reporting apparent violations of the criminal provisions of the Federal banking laws which involve Federal reserve banks or State member banks, as well as any other violations of such provisions which should appropriately be reported by the Federal reserve banks or the Board of Governors. However, the letter is not to be understood as affecting the reporting of apparent violations which involve national banks, as this is covered by the Board's letter of February 8, 1928 (X-5072), nor the reporting of bank robberies, as this is covered by the Board's letters of September 24, 1934 (X-8017) and March 15, 1935 (X-9147).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

June 7, 1937.

Mr. ____________________,
Vice President and Secretary,
Federal Reserve Bank of _____,
_____________, __________.

Dear Mr. ________:

Reference is made to Mr. ______ letter of May 5, 1937, regarding the time as of which certain securities recently issued by __________ Corporation should be considered to have acquired loan value under Regulation T.

It is understood that on March 17, 1937 the ___________ Stock Exchange certified to the Securities and Exchange Commission its approval of the listing and registration of these securities but that, at the request of the company, the _______ Stock Exchange temporarily deferred calling the securities for trading on the exchange. Under the applicable provisions of section 12(d) of the Securities Exchange Act, the registration of these securities would ordinarily become effective on April 17, 1937 at which time they would acquire loan value as registered securities, and it appears that the only question in this connection is whether this is altered by the failure of these securities to be called for trading.

A copy of Mr. _______ letter and inclosure were referred to the Securities and Exchange Commission for an expression of its views on the matter. There is inclosed a copy of a self-explanatory letter, dated May 25, from Mr. Chester T. Lane, Assistant General Counsel of the Commission, from which it will be noted that Mr. Lane is of the opinion that it is not necessary that a security be admitted to trading on a national securities exchange in order that it may be considered to be registered thereon within the meaning of Section 12 of the Securities Exchange Act, and that, in the instant case, the securities of the _________ Company described in the correspondence became registered on a national securities exchange as of April 17, 1937.

The Board sees no reason to differ with the views expressed by Counsel for the Securities and Exchange Commission and is of the opinion that the securities in question should be considered to have acquired on April 17, 1937, for the purposes of Regulation T, the status of registered securities and to have acquired accordingly the loan value prescribed by the regulation.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

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Federal Reserve Bank of St. Louis

SECURITIES AND EXCHANGE COMMISSION

Washington

May 25, 1937.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Re: ________ Company

Gentlemen:

This is with reference to your letter of May 19, 1937, in which you present an inquiry received from the Federal Reserve Bank of ________ concerning the time as of which securities issued by the above company should be considered to be registered on a national securities exchange.

I understand that on March 27, 1937, the ________ Company issued 3,986,641 shares of common stock, $7,664,100 principal amount of fifteen year 4% sinking fund debentures, and common stock purchase warrants evidencing rights to purchase 1,203,261 shares of no par value common stock. The ________ Stock Exchange certified to the Commission its approval of the listing and registration of these securities on March 17, 1937. In accordance with the applicable provisions of Section 12(d) of the Securities Exchange Act, the registration of these securities became effective on April 17, 1937. However, at the request of the company, the ________ Stock Exchange has temporarily deferred calling the issue for trading on that exchange. The question presented is whether the securities should be deemed to be registered on a national securities exchange even though not admitted to trading thereon.

In my opinion, it is not necessary that a security be admitted to trading on a national securities exchange in order that it may be considered to be registered thereon within the meaning of Section 12 of the Securities Exchange Act. In the instant case, it would appear that the statutory requirements have been fully complied with and it is, therefore, my opinion that the securities of the ________ Company described in your letter became registered on a national securities exchange as of April 17, 1937.

You will appreciate that the views expressed herein constitute only a statement of my opinion as counsel to the Commission and do not involve any ruling by the Commission.

Very truly yours,

For Allen E. Throop,
General Counsel:
(Signed) Chester T. Lane
Chester T. Lane,
Assistant General Counsel.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-14

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

July 16, 1937.

SUBJECT: Reports of Criminal Violations to the Federal Bureau of Investigation.

Dear Sir:

There is inclosed herewith a copy of a letter received by the Board from Assistant Attorney General Brien McMahon, in which it is suggested that copies of reports of violations of the criminal provisions of the banking laws of the United States which are commonly made to the Department of Justice be transmitted to the respective local offices of the Federal Bureau of Investigation. In this connection there is also inclosed a copy of a memorandum from the Director of the Federal Bureau of Investigation which contains a list of the field offices of the Bureau.

In accordance with the request of the Department of Justice, it will be appreciated if your bank will transmit to the appropriate field office of the Federal Bureau of Investigation a copy of each report of apparent violations of the criminal provisions of the banking laws of the United States which is made to the local United States Attorney and copies of which are transmitted to the Board of Governors pursuant to the procedure stated in the Board's letter of July 8, 1937 (S-12).

Very truly yours,

L P Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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S-14-a

DEPARTMENT OF JUSTICE
Washington, D. C.

June 18, 1937.

The Board of Governors,
Federal Reserve System,
Washington, D. C.

Sirs:

The question was presented to this Department sometime ago whether it would facilitate the investigation of alleged offenses at National banks if copies of the reports of National bank examiners were sent directly to the respective local offices of the Federal Bureau of Investigation in the field. The matter has been considered in this Department, and the conclusion reached that such plan would be of decided advantage. The Comptroller of the Currency has been advised accordingly, and the Department has been heretofore assured that the Comptroller will cooperate in carrying it into effect.

The question has also been suggested whether the same plan might be adopted with benefit in relation to state banks which are members of the Federal Reserve System, and I am presenting that suggestion herein for your consideration. You are fully aware how highly important it is in the enforcement of the criminal law that action be taken as promptly as possible. It is believed that that end would be promoted if it can be arranged without too great inconvenience for your examiners or other officials in the field to transmit to the respective local offices of the Federal Bureau of Investigation copies of such reports as you commonly transmit to this Department.

It is desired of course that the two copies for this Department shall be received here as in the past, the copy sent directly to the local office of the Bureau being an additional copy.

For your information, I am enclosing herewith photostatic copies of the letter of January 9, 1937 received from the Comptroller of the Currency on this subject, and a memorandum of April 22, 1937 from the Director of the Federal Bureau of Investigation, in which, among other things, he lists all of the present existing field offices of the Bureau.

Respectfully,

For the Attorney General,

(Signed) Brien McMahon

BRIEN McMAHON
Assistant Attorney General.

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Federal Reserve Bank of St. Louis

S-14-b

FEDERAL BUREAU OF INVESTIGATION
UNITED STATES DEPARTMENT OF JUSTICE

Washington, D. C.

April 22, 1937.

MEMORANDUM FOR ASSISTANT ATTORNEY GENERAL McMAHON

Attention: Mr. Ramsey

Reference is made to your memorandum dated January 27, 1937, suggesting that it may be an advantage to the service to have the practice adopted of chief national bank examiners furnishing field divisions of this Bureau with copies of reports on criminal violations in national banks.

It is believed that this procedure would have a decided advantage in causing cases to be speedily referred to field divisions for investigative action and the same meets with the approval of this Bureau. It is also suggested that the Federal Reserve Board might be willing to adopt the same practice with reference to state member banks of the Federal Reserve System.

For your information, the following is a list of the field divisions to which cases should be referred by the several chief national bank examiners throughout the United States; the letters to be addressed to the Special Agent in Charge, Federal Bureau of Investigation, United States Department of Justice, at the following addresses:

Aberdeen, South Dakota	- 610 Alonzo Ward Hotel Building
Atlanta, Georgia	- 501 Healey Building
Birmingham, Alabama	- 320 Federal Building
Boston, Massachusetts	- 10 Post Office Square, Room 950
Buffalo, New York	- 400 U. S. Court House Building
Butte, Montana	- 302 Federal Building
Charlotte, North Carolina	- 234 Federal Building
Chicago, Illinois	- 1900 Bankers' Building
Cincinnati, Ohio	- 1130 Enquirer Building
Cleveland, Ohio	- 1448 Standard Building
Dallas, Texas	- 1206 Tower Petroleum Building
Denver, Colorado	- 722 Midland Savings Building
Detroit, Michigan	- 911 Federal Building
El Paso, Texas	- 202 U. S. Court House Building
Indianapolis, Indiana	- 506 Fletcher Trust Building
Kansas City, Missouri	- 1616 Federal Reserve Bank Building
Little Rock, Arkansas	- 500 Rector Building

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Los Angeles, California	- 903 Pacific Commerce Building
Louisville, Kentucky	- 775 Starks Building
Miami, Florida	- 1300 Biscayne Building
Milwaukee, Wisconsin	- 1021 Bankers' Building
Nashville, Tennessee	- 508 Medical Arts Building
Newark, New Jersey	- 936 Raymond-Commerce Building
New Orleans, Louisiana	- 1308 Masonic Temple Building
New York, New York	- 607 U. S. Court House, Foley Square
Oklahoma City, Oklahoma	- 224 Federal Building
Omaha, Nebraska	- 629 First National Bank Building
Philadelphia, Pennsylvania	- 1300 Liberty Trust Building
Phoenix, Arizona	- 316 Security Building
Pittsburgh, Pennsylvania	- 620 New Federal Building
Portland, Oregon	- 411 U. S. Court House Building
Salt Lake City, Utah	- 301 Continental Bank Building
San Antonio, Texas	- 1216 Smith-Young Tower Building
San Francisco, California	- Suite 1105, Mills Tower Building
St. Louis, Missouri	- 423 U. S. Court House and Custom House
St. Paul, Minnesota	- 404 New York Building
Washington, D. C.	- 4244 United States Department of Justice Building.

Very truly yours,

(Signed) J. E. HOOVER

John Edgar Hoover,
Director.

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Federal Reserve Bank of St. Louis

S-15
Reg. U-17

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 15, 1937.

Mr. ___________, Vice President,
Federal Reserve Bank of _______,
_________, _________.

Dear Mr. ___________:

Reference is made to your letter of June 25, 1937, identified as "Inquiry No. 8 re Regulation U," with which you inclosed copies of two letters received from certain banks in your district under date of June 8 and June 15, respectively, raising certain questions with respect to section 3(e) of Regulation U relative to the transfer of loans.

1. Essentials of the Transfer of a Loan.

Section 3(e) of Regulation U provides in part as follows:

"A bank may accept the transfer of a loan from another bank, or permit the transfer of a loan between borrowers, without following the requirements of this regulation as to the making of a loan, provided the loan is not increased and the collateral for the loan is not changed; * * *"

The first question presented in connection with this provision is whether it should be considered that a bank accepts the transfer of a loan if it makes a loan to a customer to enable him to reduce or retire existing indebtedness at another bank or to replace funds which the borrower has used to reduce or retire indebtedness at another bank.

It is the view of the Board that a transaction such as that described should not be considered to be the accepting of the transfer of a loan pursuant to section 3(e). The provisions of section 3(e) apply only to a loan which is transferred by the process of payment by the transferee bank to the transferor bank against the receipt of the proper collateral, and a transaction such as that described above does not come within the provisions of the section.

2. The Indebtedness and Collateral to be Transferred.

Questions also are raised as to the indebtedness and the collateral to be transferred. In general, two different types of cases arise in this connection, one relating to indebtedness incurred on or after May 1, 1936, and the other to indebtedness incurred prior to that date. Since the

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inquiry did not present any question as to the requirements that might affect the transferor bank, the two types of cases will be examined only with respect to the requirements that affect the transferee bank.

Nonexcepted loans made for the designated purpose on or after May 1, 1936. - The first type of case involves indebtedness that is for the purpose of purchasing or carrying stocks registered on a national securities exchange, that is not excepted by section 2 of the regulation, and that was incurred on or after May 1, 1936. Although the transferor bank may have treated certain portions of this indebtedness as separate loans for certain purposes, the agreement between the customer and the bank is such that all the collateral for any of the described indebtedness secures all such indebtedness.

In this connection, it is to be noted that the second paragraph of section 1 of Regulation U provides that:

> "* * * the entire indebtedness of any borrower to any bank incurred on or after May 1, 1936, for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this regulation."

In view of this provision, it is evident that the regulation contemplates that, in certain connections, the aggregate of the described indebtedness and all the collateral that secures that indebtedness should be considered a unit, regardless of whether or not the transferor bank may have treated a portion of such indebtedness as a separate loan and assigned particular collateral to that portion. It is clear that it would be permissible under section 3(e) for a transferee bank to accept the transfer of the aggregate of such indebtedness accompanied by the aggregate collateral, but there is presented the additional question of whether it is permissible under section 3(e) to accept the transfer of a portion of this aggregate indebtedness accompanied by a proportionate part of the aggregate collateral.

It is the opinion of the Board that if a bank accepts a transfer of a portion of the aggregate indebtedness the bank may properly be considered to have accepted a transfer of a loan within the meaning of section 3(e), and that if the transferred indebtedness is accompanied by its proper portion of the collateral so that the ratio of loan value to indebtedness is the same with the transferred portion of the indebtedness and transferred portion of the collateral as with the aggregate indebtedness and aggregate collateral, it should properly be considered that "the collateral for the loan is not changed." If a transfer meets both these conditions and the indebtedness is not increased, the transferee bank may, pursuant to section 3(e) of the regulation, accept the transfer "without following the requirements of this regulation as to the making of a loan."

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Nonexcepted loans made for the designated purpose before May 1, 1936. - The other type of case involves indebtedness that is for the purpose of purchasing or carrying registered stocks, that is not excepted by section 2 of the regulation, but that was incurred prior to May 1, 1936.

It will be noted that the provision of section 1 of the regulation quoted above with respect to the treatment of aggregate indebtedness and aggregate collateral as a unit does not apply to indebtedness incurred prior to May 1, 1936. In the case of such an old loan, therefore, identification of the loan and the collateral therefor, all or part of which are to be transferred, should be made on the basis of the practice which the transferor bank and the borrower have consistently followed in good faith in dealing with the loan. Any indebtedness which has been treated as constituting a single loan, and collateral which has been treated as having loan value for the purposes of that loan and as not having loan value for other purposes, should be considered as a unit, and they should be so considered without regard to a customers' agreement under which collateral for one loan secures another.

If the entire amount of such an old loan thus identified is to be accepted by the transferee bank pursuant to section 3(e), it should be accompanied by all the collateral which, as indicated above, has been treated as having loan value for the purposes of the loan and as not having loan value for other purposes. If a portion of such a loan is to be accepted by the transferee bank pursuant to section 3(e), it should be accompanied by the proper proportion of the collateral which has been so treated, so that the collateral would not be changed, i.e., the ratio of loan value to indebtedness is the same with the transferred portion of the indebtedness and transferred portion of the collateral as with the indebtedness originally treated as a single loan and the collateral treated as having loan value only for the purposes of that loan.

3. Determination of Facts Regarding Transfer of Loan.

A question is also presented as to the method which a transferee bank may use to determine whether or not the conditions necessary for the transfer of a loan pursuant to section 3(e) are being followed. Specifically, the question is raised whether the transferee bank may rely upon a signed statement of the borrower or the transferor bank which it accepts in good faith to determine these facts.

As in the case of a number of other facts that are relevant to operations under the regulation, no specific method of determining these facts is required. The requirement is that the bank operate diligently and in entire good faith, and in doing this it may utilize various methods for ascertaining the facts in particular cases. As one method of determining

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the facts in connection with the transfer of a loan, a transferee bank would be justified in relying upon a signed statement of the borrower or the transferor bank which the transferee bank accepts in good faith.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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Federal Reserve Bank of St. Louis

S-16

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 19, 1937.

Dear Sir:

There is inclosed for your information a copy of a letter which the Board is sending today to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, with reference to the question of whether the term "records" as used in the Board's letter X-9842-a of March 15, 1937, regarding the destruction of records, should apply to working papers compiled by examiners for the Federal reserve banks in the course of their field examinations.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

S-16-a

July 19, 1937.

Mr. E. C. Hill, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Hill:

This refers to your letter of July 8, 1937, inquiring whether the term "records" in the request made in the Board's letter of March 15, 1937, X-9842-a, that no records of the bank examination departments of the Federal reserve banks be destroyed without the advance approval of the Board of Governors, should be construed to include examiners' working papers which are compiled during the course of field examinations.

It was not intended that the term "records" as used in the Board's letter X-9842-a should apply to examiners' working papers, and accordingly the determination of the period of time during which such papers are retained and the disposition thereof are matters which are left to the discretion of the respective Federal reserve banks.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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S-17
Reg. T-57

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 16, 1937

Mr. ________________, Secretary,
Federal Reserve Bank of ________,
____________, __________________.

Dear Mr. _________:

Reference is made to your letter of July 9, 1937, in which you include an excerpt from a letter received by you raising a question regarding section 5(d) of Regulation T.

Your letter is not entirely clear as to the question for which an answer is desired. As a result of a subsequent telephone conversation between yourself and a member of the Board's staff, however, it is understood that the question intended to be presented may be stated as follows:

> "Section 5(d) states that certain credit maintained without collateral or on collateral other than exempted or registered securities may be so maintained until January 1, 1938. Does section 5(d) require the liquidation on or before this date of credit in a special account established pursuant to section 5(b) of the regulation, i.e., credit that is maintained without collateral or on collateral other than non-exempted registered securities but that is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of the regulation?"

In reply to this question you are advised that the time limitation in section 5(d) does not apply to credit provided for in section 5(b) and that, therefore, credit provided for in section 5(b) may be maintained without regard to the date specified in section 5(d).

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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S-18
Reg. F-11

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 17, 1937.

Mr. __________, Vice President,
Federal Reserve Bank of ______,
______________, ________________.

Dear Mr. __________:

This refers to Mr. _________ letter of July 8, 1937, submitting a request of the ________ National Bank for advice as to whether the Board would object to the appointment of alternates for members of the Trust Investment Committee of that national bank functioning under the provisions of paragraph (c) of section 6 of the Board's Regulation F.

It is understood the Trust Investment Committee is now composed of four officers of the bank appointed by its board of directors. It is proposed that there shall be appointed by the board of directors of the bank an alternate to each member of the Trust Investment Committee, each alternate to act only when the regular member is absent from the bank or is unable, because of the demands of other official business upon his time, to attend the meetings of the Committee. It is also understood that the principal difficulty which the _________ National Bank contemplates meeting by the appointment of such alternates is the one arising out of absences of members of the Committee during the vacation season, and that on this phase of the matter it desires early advice.

The provision of the regulation referred to contemplates a Committee the members of which shall have a continuity of responsibility for the discharge of the duties of the Committee. However, the Board recognizes that it may be proper, to appoint alternates to serve in the place of the regular members of the Committee in certain circumstances without loss of the desired continuity of action by the Committee. The Board is not prepared at this time to lay down any general rule as to all circumstances under which alternates might properly serve in place of regular members of the Committee, but it would have no objection to alternates appointed by the board of directors serving in place of regular members who are absent from the bank on account of vacations, illness, or other good and sufficient reasons. Whenever an alternate serves in the place of a regular member of the Committee, the Board believes that the minutes of the Committee should show the reason for such service in place of the regular member.

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It may also be suggested that the difficulties referred to by the ________ National Bank might be eliminated through the enlargement of the number of regular members of the Trust Investment Committee, it being assumed, of course, that any action by the Committee would represent the action of at least a quorum of the Committee as described in the Board's letter of March 15, 1937 (X-9872).

Please advise the ________ National Bank accordingly.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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S-19

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1937.

Dear Sir:

There is transmitted herewith, for your information, a copy of the Board's self-explanatory letter of this date to Mr. C. C. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, with regard to indebtedness and outside business activities of, and ownership of bank stock by, the Federal Reserve Agent and employees in the Agent's department occupying responsible positions.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

S-19-a

July 26, 1937.

Mr. C. C. Walsh,
Federal Reserve Agent,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Walsh:

Receipt is acknowledged of your letter of July 16, 1937, transmitting for the Board's information and files a report with respect to the indebtedness and outside business activities of, and ownership of bank stock by, officers and employees of the Federal Reserve Agent's Department occupying responsible positions.

Under the revised procedure outlined in the Board's letter S-8, dated June 25, 1937, such reports need not in the future be submitted to the Board of Governors as the procedure contemplates that such reports with respect to the Assistant Federal Reserve Agents and other employees of the Federal Reserve Agent's Department occupying responsible positions will be submitted by the Federal Reserve Agent to the Board of Directors of the Reserve Bank, and the Board's examiners have been instructed to review the reports regarding indebtedness, outside business activities, and ownership of bank stock submitted to the Board of Directors, and to advise the Board of Governors of any unusual situations presented thereby.

It has been noted that the report as submitted to the Board of Governors included information regarding yourself, as Chairman of the Board and Federal Reserve Agent. In view of the transfer to the banks of the non-statutory duties previously performed in the offices of Chairmen and Federal Reserve Agents and the placing of the Chairmanship upon an honorarium basis, the procedure set forth in the Board's letter S-8 does not require that the reports submitted to the Board of Directors of the Reserve Bank with respect to the Federal Reserve Agent's Department include information regarding the Federal Reserve Agent.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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S-20
Reg. T-58

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 28, 1937.

Mr. ________________,
Assistant Vice President,
Federal Reserve Bank of _______,
________, _________.

Dear Mr. ______:

Reference is made to your correspondence regarding the inquiry presented by _________ Stock Exchange as to whether certain transactions constitute bona fide arbitrage transactions within the meaning of section 3(d) of Regulation T. As you know, a reply to your letter has been delayed while certain practical aspects of this problem were being investigated.

It is understood that the inquiry relates to transactions in two securities of which the first is an issued warrant of a particular corporation which evidences a right to subscribe, by the payment of a specified sum of money, to a security which is definitely to be issued by the corporation. The second security is the security that may be obtained by exercising the warrant, and it may conveniently be referred to as the subject security.

In order to take advantage of the disparity in the relative market prices of the warrant and the subject security, a customer of a member of a national securities exchange purchases the warrant through the member and simultaneously, or nearly simultaneously, sells short through the member that quantity of the subject security called for by the warrant.

In one case the subject security is part of an additional issue of outstanding securities of the corporation and is sold short as an issued security. In another case the subject security is part of an issue of which no portion is outstanding, and it is sold short on a "when issued" basis. In both cases the customer instructs the member to exercise the warrants and to cover the sales with the securities thus acquired, and the member advances the subscription funds for this purpose.

It is the opinion of the Board that if transactions of the type described are effected as outlined above in good faith and not for the purpose of evading or circumventing the provisions of the regulation, such transactions would constitute bona fide arbitrage

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transactions in securities within the meaning of section 3(d) of Regulation T and, therefore, might be effected in a special account pursuant to the provisions of that section.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-21
Reg. K-1

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 29, 1937.

Dear Sir:

In order that all foreign banking corporations operating under the supervision of the Board pursuant to the provisions of either section 25 or section 25(a) of the Federal Reserve Act may be placed on substantially the same basis with respect to reserve requirements, the Board has amended, effective September 1, 1937, the first sentence of the third paragraph of section XIV of Regulation K to read as follows:

> "Against all demand deposits and time deposits received by the Corporation in the United States a reserve shall be maintained in the percentages required to be maintained by member banks of the Federal Reserve System located in central reserve cities, provided that in no event shall such reserve be less than 10 per cent of the aggregate amount of all demand deposits and time deposits received in the United States."

For your information, you are advised that only one of the foreign banking corporations operating under the supervision of the Board pursuant to the provisions of section 25 of the Federal Reserve Act is not now required to maintain reserves against deposits received in the United States in the percentages required to be maintained by member banks located in central reserve cities. The Board is taking appropriate steps to require the same reserves to be maintained by this corporation.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

S-22
Reg. F-12

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 4, 1937

Mr. ______________, Vice President,
Federal Reserve Bank of _________,
____________, ______.

Dear Mr. ______:

This refers to Mr. __________ letter of July 16, 1937, relating to an inquiry from The ______ National Bank and Trust Company of ____________, ___________, ___________, concerning the application of section 11(a) of the Board's Regulation F, the pertinent provisions of which read as follows:

> "Funds received or held by a national bank as fiduciary shall not be invested in stocks or obligations of * * * the bank or its directors * * *."

It appears that the bank was recently appointed co-trustee of a trust which has been in existence for a number of years and that among the assets of the trust received by the bank was a mortgage note of one of the bank's directors which matures in August, 1937. The bank inquires whether the renewal of the note would violate Regulation F.

The above-quoted provisions of Regulation F relate to the investment of trust funds and do not prohibit the retention of assets received by a national bank as a part of a trust estate when it becomes trustee. Further, in accordance with the principles applied in a recent ruling relating to an analogous situation, the renewal of a note so received as a part of a trust estate should not be considered as an investment of trust funds within the meaning of such requirement of the regulation (see ruling in Federal Reserve Bulletin for May, 1937, at page 392). Therefore, it is the view of the Board that the regulation itself does not prevent the renewal of the note referred to above; it being understood, of course, that the investment is otherwise a proper investment of the trust in view of all the circumstances relating thereto and such investment is not otherwise subject to criticism.

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However, the bank's attention should be called to certain provisions of law which may have some bearing on the question whether the note should be renewed. Section 11(k) of the Federal Reserve Act provides that it shall be unlawful for a national bank to lend trust funds to any officer, director, or employee of the bank and makes it a felony for any officer, director, or employee to make or receive such loan. Since the enforcement of such statutory provisions falls within the jurisdiction of the Department of Justice, the Board cannot undertake to express any opinion concerning their interpretation and their application to the renewal of the note in question.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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S-23
Reg. T-59

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 19, 1937.

Mr. ______________,
Division of Security Loans,
Federal Reserve Bank of ______,
______, ______________.

Dear Mr. ______:

Reference is made to your correspondence regarding the inquiry of ________________ Co., as to whether certain transactions involving the clearance of securities may be effected in a special cash account pursuant to section 6 of Regulation T. A reply to your letter has been delayed in order that the questions presented might be considered in connection with certain similar questions which have arisen in connection with Regulation U.

Three different cases are presented, each involving a transaction in which a broker or dealer subject to the regulation clears certain security transactions for another dealer. These cases may be briefly described as follows:

1. The broker or dealer subject to the regulation buys a security for the other dealer and handles the transaction as any cash transaction for any customer would be handled.

2. The broker or dealer subject to the regulation takes up for the other dealer, from another house or customer, securities that the other dealer has purchased and has already sold to other persons for prompt delivery against full cash payment. The broker or dealer subject to the regulation promptly delivers the securities to the persons to whom they have been sold, obtaining full cash payment against such delivery.

3. The broker or dealer subject to the regulation takes up from another dealer securities which the other dealer has already sold to other persons for prompt delivery against full cash payment, and in taking up the securities from the other dealer, the broker or dealer subject to the regulation makes him an advance against funds to be received when the securities are delivered. The broker or dealer subject to the regulation promptly delivers the securities to the persons to whom they have been sold,

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obtaining full cash payment against such delivery.

It is the opinion of the Board that each of the transactions described is permissible, subject to the conditions specified in section 6 of Regulation T, in a special cash account established pursuant to that section. Under ruling No. 34 interpreting Regulation T, any transactions in registered securities that are permissible in such a special cash account are, in general, permissible in unregistered securities and, therefore, such transactions would be permissible whether they involve registered securities or unregistered securities. As indicated in the proposed reply to ________________ Co. that you forwarded with your letter, the fact that the broker or dealer subject to the regulation may require the other dealer to keep on deposit collateral for the first broker's or dealer's protection while clearing the securities, or the fact that he may make a service charge, does not affect the status of bona fide cash transactions.

It should be noted, of course, that in cases numbered 2 and 3 above it is assumed that the sale has been made by the other dealer before the broker or dealer subject to the regulation clears the transaction. These appear to be the situations presented in the inquiry, and your proposed reply apparently is also based on this assumption. However, it might be advisable to alter the proposed reply to make this fact clearer.

Since the point referred to in the next to the last paragraph of your proposed reply is not specifically mentioned in the inquiry, it is suggested that the point be omitted and instead a general statement be included to the effect that all such transactions must comply with the requirements of section 6.

In the last paragraph of your proposed reply reference is made to the fact that if a bona fide sale is cancelled, it would be permissible in certain circumstances for the broker or dealer subject to the regulation to return the securities to the dealer for whom the clearance is being effected, receiving repayment from that dealer. It is suggested that it be pointed out in this connection that such reversals of transactions are, of course, supposed to occur only as unusual and unanticipated cases and without prearrangement.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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S-24
Reg. F-13

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 4, 1937.

Mr. __________, First Vice President,
Federal Reserve Bank of __________,
____________, ______________.

Dear Mr. ________:

This refers to your letter of June 9, 1937, and its inclosures, relating to an inquiry from The _____ National Bank, __________, ________, concerning the application of section 11(a) of the Board's Regulation F, the pertinent provisions of which read as follows:

> "Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or <u>its directors, officers, or employees, or their interests</u>, * * * ."

It appears that in the latest report of examination of the bank the examiner listed certain trust investments as investments in concerns in which directors are interested and criticized those purchased since June 1, 1936, as having been purchased in violation of the above-quoted provisions of Regulation F which became effective on that date. The investments listed are stocks or obligations of ______ Creamery Company, ________ Power Company, ________ Railroad Company, _______ Railway Company, and _________ Railroad and Navigation Company. The bank inquires whether the investment of trust funds by it in such securities is prohibited by Regulation F.

It appears that one director of the bank is a director and executive vice president of ________ Creamery Company; that one director is a director of ________ Power Company and, until recently, another was a director of that company; that one director is a director and president of each of the railroad companies; that the securities of the railroad companies are listed on the New York Stock Exchange and possess a general market; and that the securities of the other companies are not listed on any securities exchange but it is stated that they are not closely held and possess a fairly active local market. It is understood from a letter received from the president of the bank that none of the securities is ever purchased from the issuing corporation or through any of the directors of the bank and that such securities are purchased entirely through brokers or bond houses of independent and national standing.

The purpose of the above-quoted provisions of Regulation F is explained in a footnote which reads, in part, as follows:

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"* * * this requirement contemplates that the national bank will not invest trust funds in the obligations of any organization in which officers, directors or employees of the bank have such an interest as might affect the exercise of the best judgment of the management of the bank in investing trust funds."

While the footnote refers only to obligations of organizations in which officers, directors, or employees are interested, the same principle is applicable in the case of investments in stocks of, or property acquired from, such organizations.

In determining whether particular investments are prohibited, it is necessary to consider all of the facts and circumstances of each case. For example, the mere fact that a director of a national bank is director of a corporation does not necessarily make it a violation of the regulation for the bank to invest trust funds in stocks or obligations of the corporation. On the other hand, such an investment may not be properly made unless it is clear that, in view of all of the facts and circumstances of the case, the interest of the director in the corporation is not such as might affect the exercise of the best judgment of the management of the bank in investing the trust funds. An investment which may otherwise be entirely proper, or even highly desirable, may be in violation of the above-quoted provisions of the Board's regulation, and the well-established principles of sound trust administration upon which they are based, because conflicts of interest are involved; transactions in which trustees have conflicting interests are condemned as a class because there is grave danger of abuses.

The Board feels that, as a general proposition, it is undesirable for it to attempt to rule upon specific cases of the kind presented by this inquiry, both because of the difficulty of ascertaining and accurately stating all of the facts and circumstances involved and because such rulings tend to destroy the intended flexibility of the pertinent language of the regulation. It is felt that this is a matter which should be left primarily to the good faith and sound judgment of the banks and that ordinarily they must determine for themselves whether particular transactions are in violation of the spirit and purpose of this requirement of the regulation.

It is suggested that the inclosed copy of this letter be furnished to The ________ National Bank, together with any additional comments which you may wish to make.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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S-25
Reg. F-14

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 4, 1937.

Mr. __________, First Vice President,
Federal Reserve Bank of ____________,
________________, ______________________.

Dear Mr. __________:

This refers to your letter of June 9, 1937, and its inclosure, relating to an inquiry from The _________ National Bank at _________, _________, _________, concerning the application of section 11(a) of the Board's Regulation F.

The bank inquires whether such section prohibits the bank from investing trust funds in real estate mortgage loans purchased through ___________ Company, Inc., of which Mr. _________, a director of the bank, is chairman of the board of directors. It is stated that such loans are not obligations of _________ Company, Inc.; that proposed loans are submitted to the trust department of the bank before commitment and closed only after its approval; and that they are secured by first mortgages on real estate of a sufficient appraised value to meet the requirements of the Nebraska law. In the latest report of examination of the bank the investments in such mortgage loans which had been made since June 1, 1936, were criticized as being in violation of the regulation.

The bank also inquires whether the above-mentioned provisions of the regulation apply to "general market and listed bonds," mentioning obligations of ________ Power Company and __________________________ Railroad Company. It appears that a director of the bank is a director and vice president and general manager of ________ Power Company and that another director is a director and executive vice president of _________, ____________________ Railroad Company. It is stated that the bank has in the past purchased obligations of such companies for trust accounts and that such obligations are on the bank's list for future investments.

The views expressed by the Board in its letter of this date to you, relating to a similar inquiry from The _______ National Bank, __________, _________, are equally applicable in connection with this inquiry and it is suggested that you advise The ____________ National Bank at ______ in accordance therewith. In addition, the bank should be advised that the fact that bonds are listed on a securities exchange or possess a general market does not make the pertinent provisions of the regulation inapplicable thereto, although it may have a bearing on the question whether the interest of officers, directors, or employees of the bank in the obligor is such as might affect the exercise of the best judgment of the management of the bank in investing trust funds in such bonds.

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Further, the Board feels that it should specially call attention to the fact that the mortgage loans in question quite clearly constitute "property acquired from" _______ Company, Inc., within the meaning of the regulation, and that, even though such loans are otherwise proper trust investments, their purchase is forbidden, if, as apparently may be the case, _________ Company, Inc. is an "interest" of Mr. ____________ within the spirit and purposes of the regulation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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S-26
Reg. U-18

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 5, 1937.

Mr. ___________, Vice President and Secretary,
Federal Reserve Bank of _____________,
_______________, __________________.

Dear Mr. _________:

Reference is made to your letter of July 26, 1937 with which you inclosed a copy of a letter from Mr. __________, National Bank Examiner, _________, ________, presenting an inquiry with reference to Regulation U.

It is understood that the question presented involves a loan that was made prior to May 1, 1936 for the purpose of purchasing or carrying registered stocks and was secured by such stocks. After this date cash was substituted for an equal market value of the stock collateral, and later this cash was withdrawn on the deposit of an equal market value of registered stocks. The question raised is whether the cash can be considered as collateral or whether it should be considered that the deposit of cash is the liquidation of a portion of the old loan so that the withdrawal of the cash would constitute the making of a new loan subject to the regulation.

You refer to the ruling forwarded with the Board's letter (X-9655) of July 20, 1936 to the effect that a cashier's check might be treated as collateral for a loan made prior to May 1, 1936 and that, therefore, securities might be substituted for the cashier's check without a new loan being made that would be subject to the regulation. It is the view of the Board that the same principle applies to the present case, and that it would be proper to treat the cash as collateral for the loan so that when the cash was subsequently withdrawn there would be merely a change in the collateral for a loan originally made prior to May 1, 1936 rather than the making of a new loan subject to the regulation.

In this connection it is to be noted, of course, that after Amendment No. 3 of Regulation U becomes effective on September 1, 1937, loans made before May 1, 1936 will be subject to the regulation and that thus the effect of treating cash as collateral for such a loan will be considerably altered. If cash should be held as collateral for a loan subject to the

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regulation, under the first paragraph of section 1 of the regulation the cash would obviously have a much higher loan value than stocks and, therefore, could not be withdrawn against an equal market value of stocks if the withdrawal would create or increase an excess of the loan over the maximum loan value of the collateral.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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S-27
Reg. D-6

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 5, 1937.

Mr. ________________, Vice President,
Federal Reserve Bank of ______________,
__________________, ____________________.

Dear Mr. ________________:

This refers to your letter of June 29, 1937 presenting the question whether member banks in (name of city) may, in computing required reserve balances, deduct from their gross demand deposits matured bonds and coupons payable in (same city) which have been received by them and which are still in the process of collection. This involves the question whether such matured bonds and coupons may be considered as "cash items in process of collection" within the meaning of section 1(g) of Regulation D so as to be deductible from gross demand deposits under section 2(b) of the regulation.

From your letter it is understood that (name of city) banks customarily give immediate deposit credit, or one day deferred deposit credit, for matured bonds and coupons payable in (same city) whether received over-the-counter or through the mails from their depositors and bank correspondents; that such items are customarily received from correspondent banks in cash letters; that after such cash letters have been proved, the matured bonds and coupons therein are sorted according to paying agents (and thereafter according to issues and denominations) preparatory to presentation; that where the paying agents are members of the (same city) Clearing House Association the coupons are cleared through the Clearing House, but the matured bonds are presented over-the-counter; that where the paying agents are not members of the Association, both the matured bonds and coupons are presented over-the-counter; that in the case of items cleared through the Clearing House the presenting bank receives a due bill on the day of clearing which due bill is cleared on the following day in the check clearings; that in the case of items presented over-the-counter to the paying agent, a clearing house check is received the same day in payment for the items, which check is cleared the next day; and that the due bills given for the coupons presented through the Clearing House and the clearing house checks given for the bonds and coupons presented over-the-counter are themselves deductible from gross demand deposits.

It is also understood that your bank handles matured coupons forwarded by your member banks and direct sending banks as cash items, giving one day deferred deposit credit therefor, and in some instances handles matured bonds on the above basis and in other instances handles matured bonds as non-cash items. We further understand that the question presented does not refer to maturing bonds and coupons.

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You are advised that, after considering this matter in the light of the facts stated above, the Board of Governors is of the opinion that matured bonds and coupons, to the extent that they are treated and handled by member banks as cash items substantially in accord with the practice described, may properly be included by such banks in "such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items", within the meaning of section 1(g)(3) of Regulation D, and deducted by such banks from the amount of their gross demand deposits in computing their required reserves.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-28
Sec. 5136 R.S.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 1937.

Subject: Method of amortizing premium on different lots of bonds of same issue under Comptroller's regulations regarding investment securities.

Dear Sir:

There is inclosed herewith for your information a copy of a letter from the Comptroller of the Currency expressing his views upon the question whether the amortization of investment securities should be based on the average cost of bonds of a given issue or upon the specific cost of each lot of bonds of such issue held by a member bank.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

the broker in two or three installments, at varying prices. In such case, it is suggested that the average price may be taken as the purchase price of each of the bonds involved for the purpose of applying the amortization requirements of the regulations.

Very truly yours,

(Signed) GIBBS LYONS

GIBBS LYONS
Deputy Comptroller

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COPY

S-28-a
Sec. 5136 R.S.

TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
WASHINGTON

August 27, 1937.

Mr. L. P. Bethea, Assistant Secretary,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Sir:

Reference is made to your letter of August 2, 1937, with which you inclose copy of a letter from Mr. R. B. Spear, executive vice president of the Depositors Trust Company, Augusta, Maine, presenting a question regarding amortization of premium on investment securities under regulations of this office.

The question, as stated by Mr. Spear, is as follows:

".....we have $20,000 bonds of a particular issue which cost us 103 3/4. Within a few days, due to the decline in the bond market, we have been able to buy $20,000 more bonds of the same issue, identical with the ones we held, at a price which brings the average cost for the forty bonds to 99 1/2. The question then arises as to whether we should still continue under the regulation to amortize the premium on the first $20,000 bonds purchased at a premium, or whether because their average cost is below par, there is no need of further amortization on that particular issue."

Section II(4) of the regulations prohibits the purchase of an "Investment security" at a price exceeding par unless regular amortization of premium is provided by the bank through one of two methods specified. Hence, it is necessary for premium on each bond purchased above par in the case cited by Mr. Spear to be amortized, and therefore it would not be permissible for the same to be used to equalize the carrying values of the bonds subsequently bought below par.

In practical application of the above rule, it may be found in some instances as a matter of fact that a bank has purchased bonds of the same issue at varying prices under circumstances which warrant a consideration of the individual purchases as part of a single transaction - such as where the bank may have placed an order for the purchase of a certain number of such bonds but the actual purchases are made by

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-29

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

September 8, 1937.

SUBJECT: Rate Schedule

Dear Sir:

In order to avoid any possible differences between the Board's records and the records of the Federal Reserve banks with respect to Federal Reserve bank discount and open market rates, it will be appreciated if you will furnish the Board each month a statement showing each rate in effect at your bank. It is requested that the first statement show rates in effect on September 4, 1937, and that beginning with October the statements show rates in effect on the second Wednesday of the month.

Six copies of the form to be used in submitting the report are furnished herewith and an additional supply will be forwarded under separate cover.

No change should be made in the present practice of advising the Board by wire of rates fixed by your bank subject to the Board's approval.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Form F. R. 296
Sept. 1937

RATE SCHEDULE OF FEDERAL RESERVE BANK OF ____________

This report should be submitted as of the second Wednesday of each month.

Use word NONE to indicate no rate.

	Percent	In effect beginning
Discount Rates:		
Rediscounts for and advances to member banks under Sections 13 and 13a..............................	______	____________
Advances to member banks under Section 10(b).........	______	____________
Advances to individuals, partnerships, and corporations secured by direct obligations of the United States (last paragraph of Section 13)......	______	____________
Rates on Industrial Advances under Section 13b:		
Advances direct to industrial or commercial organizations....................................	______	____________
Advances to financing institutions -		
On portion for which the financing institution is obligated..................................	______	____________
On remaining portion.............................	______	____________
Commitments to make advances.........................	______	____________
Buying Rates on Acceptances:		
Bankers Acceptances -		
1-15 days	______	____________
16-30 days	______	____________
31-45 days	______	____________
46-60 days	______	____________
61-90 days	______	____________
91-120 days	______	____________
121-180 days	______	____________
Resale agreement	______	____________
Trade Acceptances	______	____________
Rates on Government Securities, resale agreement	______	____________

Signature ____________________________

Date ____________________ Title ____________________________

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S-30
Reg. U-19

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 26, 1937.

Mr. ____________, President,
Federal Reserve Bank of _______,
____________, _____________.

Dear Mr. __________:

Receipt is acknowledged of Mr. _________'s letter of August 19, 1937, requesting a ruling on the question whether paid-up shares of a Massachusetts co-operative bank should be considered "stock" within the meaning of section 3(l) of Regulation U. He states that his office has expressed an informal opinion that such shares should be considered "stock", and you are advised that the Board is of the same opinion.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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S-31
Reg. U-20

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 2, 1937.

Mr. ____________, Vice President,
Federal Reserve Bank of ________,
__________, ____________.

Dear Mr. ____________:

Further reference is made to your letter of August 23, 1937, inclosing a copy of a letter from Mr. ______________, Vice President of the __________ Bank, __________, __________, inquiring whether the provisions of Regulation U, as amended to September 1, 1937, are applicable to a loan made by a bank prior to the enactment of the Securities Exchange Act of 1934, for the purpose of purchasing or carrying a stock which subsequently became a stock registered on a national securities exchange. Mr. ______ asks whether the regulation should be regarded as not applicable in such a case because there were no stocks "registered on a national securities exchange" prior to 1934.

The regulation is applicable, with certain exceptions, to any loan initially made for the purpose of purchasing or carrying a stock "registered on a national securities exchange", and the phrase quoted has reference to the present status of the stock. Accordingly, a loan for the purpose of purchasing or carrying a particular stock is for the purpose of purchasing or carrying a registered stock if that particular stock is now registered, and this would be true even if the stock was not registered at the time the loan was originally made, as would be the case if the loan had been made prior to the enactment of the Securities Exchange Act of 1934.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 3, 1937.

Mr. ______________,
Assistant Vice President,
Federal Reserve Bank of _______,
_________, ____________.

Dear Mr. _________:

Reference is made to your letter of August 25, 1937 forwarding a copy of a letter regarding Regulation U from Mr. ____________, Assistant Cashier, The ________ Trust Company, _________.

It is understood that Mr. _______ is interested in a loan which was made prior to May 1, 1936 but which is subject to Regulation U since Amendment No. 3 became effective on September 1, 1937. Certain cashier's checks are held as collateral for the loan, but when the cashier's checks are given a maximum loan value of 100 per cent of their face the maximum loan value of the collateral is less than the amount of the loan. Mr. ________ wishes to know whether the Board agrees with his view that in such circumstances the reinvestment of the cashier's checks in an equal market value of stocks would be forbidden as a substitution that would increase the deficiency in the maximum loan value.

The Board's letters (X-9655, S-26) of July 20, 1936 and August 5, 1937 are to the effect that it is permissible to hold cashier's checks as collateral for a loan subject to Regulation U. As indicated in the last paragraph of S-26, however, cashier's checks held as such collateral would have a higher maximum loan value than stocks. The replacement of cashier's checks by stocks having an equal market value would, of course, be a substitution of collateral, and such a substitution necessarily would reduce the maximum loan value of the collateral for the loan. If such a reduction caused the maximum loan value of the collateral to be less than the amount of the loan, or increased an existing deficiency, the substitution would be forbidden by the last paragraph of section 1 of the regulation.

In the present case there is an existing deficiency which would be increased by the substitution here in question and, therefore, the substitution would not be permissible. It is to be noted, of course, that the regulation would not forbid the purchase of the securities desired by the borrower if the borrower deposits, either in the form of cash or additional collateral, sufficient margin to cover such a purchase.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-33
Reg. P-11

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1937.

Dear Sir:

There is attached, for your information and guidance, a copy of a self-explanatory letter which the Board addressed to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, under date of September 16, 1937, relating to the procedure to be followed and the information required where a holding company affiliate which holds a general voting permit has acquired additional banks and desires to obtain a voting permit covering such banks.

Very truly yours,

L P Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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S-33-a
Reg. P-11

September 16, 1937.

Mr. S. G. Sargent, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Sargent:

This refers to your letters of July 27, and July 7, 1937, and Mr. Paulger's telegram to you of July 10, relating to the procedure to be followed and the information required where a holding company affiliate which holds a general voting permit has acquired additional banks and desires to obtain a voting permit covering such banks. It is noted from your letter of July 27, that your inquiry was made at the instance of ___________ Corporation and in order that you might be informed on the subject and be in a position to issue instructions in regard thereto should occasion arise.

A holding company affiliate which holds a general voting permit covering certain member banks and which desires to obtain a permit entitling it to vote the stock owned or controlled by it of additional banks should file a new application on the Board's Form P-1, listing in Exhibit A thereof the additional banks with respect to which a voting permit is desired. Exhibits C, K, M, and O should be submitted with the new application, in accordance with the list of exhibits shown in Form P-1 and the instructions set forth in the Board's letter of January 21, 1936 (X-9456).

In connection with Exhibit B, it is, of course, unnecessary that additional copies of material submitted in Exhibit B of the holding company affiliate's previous application for a voting permit be furnished with a new application, but it is suggested that the documents constituting Exhibit B of the previous application be incorporated by reference in Exhibit B of the new application, and that it be certified that such documents, together with any new documents which may be furnished, constitute the charter or articles of incorporation and by-laws of the holding company affiliate as amended to date.

As a minimum requirement, the other exhibits submitted with the new application should be complete, in accordance with the list of exhibits in Form P-1 and the instructions set forth in X-9456, with respect to all subsidiaries of the applicant and all other organizations with which the applicant or any of its subsidiaries is affiliated which were not covered by the exhibits submitted with the holding company affiliate's previous application for a voting permit, or amendments or supplements thereto. Also, Exhibit D of the new application should include at least a current statement of financial

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condition of the applicant, showing separately each control account or each principal group or class of assets, liabilities, and net worth. Exhibit G should include at least a list of all subsidiaries of the applicant and all other organizations with which the applicant or any of its subsidiaries is affiliated, including organizations which were covered by Exhibit G of the previous application for a voting permit, together with full information with respect to the functions and relationships of the latter organizations if substantial changes have occurred since the information in the previous application or supplements thereto was filed.

The nature and extent of further detailed information to be furnished by the applicant with regard to its financial condition and management, and with regard to other organizations which were covered by the previous application or amendments or supplements thereto would depend on the circumstances of the case, such as the relative importance of the additional banks, other changes in the composition of the group, the nature and extent of information already available from reports of examination, and whether the latest information furnished by the holding company affiliate in connection with its previous application for a voting permit is reasonably current.

It is the Board's desire to avoid placing any unnecessary burden upon a holding company affiliate in connection with the information required to be submitted with a new application for a voting permit. It is important, however, that the information furnished with a new application set out clearly the existing situation in the group in order that the Board may be informed with regard to all significant changes that have occurred since the filing of the previous application or amendments or supplements thereto. In general, it is necessary, of course, that the current information be adequate for the purposes of the Federal Reserve Bank in making its recommendations to the Board, and for consideration by the Board, as required by law, of the financial condition of the applicant, the general character of its management, and the probable effect of the granting of the permit upon the affairs of the subsidiary banks.

It is noted from your letter of July 27, 1937, that ____________ Corporation did not indicate its position with regard to future acquisitions. In this connection, it is suggested that, if a holding company affiliate has acquired control of member banks subsequent to the issuance to it of a general voting permit and is engaged in a program looking toward further expansion or reorganization at an early date, the filing of a new application for voting permit might, in the absence of immediate need for such permit, be deferred until the entire program has been completed, in order to avoid the burden or inconvenience to the holding company affiliate which might result from filing several new applications with necessary supporting details in each case. It is important, however, that a new application be filed at a sufficiently early date to allow ample time for consideration by the Federal Reserve

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Bank and the Board of the issuance of a general voting permit prior to the next regular annual meetings or special meetings of the shareholders of the banks named in Exhibit A of the new application. Of course, as heretofore, while an application for a voting permit is pending before the Board, Exhibit A of such application may be amended to include additional banks which become subsidiaries of the applicant after the application is filed.

Attention is directed also to the fact that if a State member bank becomes a subsidiary of a holding company affiliate, such bank must, under the provisions of section 9 of the Federal Reserve Act and section 3 of the Board's Regulation P, obtain from its holding company affiliate an agreement in the form of Exhibit P (Form P-5) within 90 days after the bank becomes a subsidiary, and that such agreement must be filed promptly, irrespective of when an application for a voting permit covering such bank is filed.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 30, 1937.

Mr. J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. O'Connor:

This refers to Mr. Gough's letter of September 3, 1937, requesting a ruling upon a question presented by Mr. ____________, Vice President of the _________ National Bank, ___________, _____. Mr. ______ inquires whether it is permissible for the Board of Directors of his bank to grant authority to an executive officer to borrow up to $2500 and permit this authority to continue in full force and effect until revoked.

As you know, section 22(g) of the Federal Reserve Act prohibits an executive officer from borrowing from or otherwise becoming indebted to the member bank with which he is connected, but contains an exception under which an executive officer may become indebted to such bank in an amount not exceeding $2500 with the prior approval of a majority of the entire board of directors. The Board's Regulation O provides that a loan or extension of credit of not exceeding $2500 must in each case be given prior approval by a majority of the entire board of directors of the member bank.

To facilitate the practical application of the law and the regulation the Board of Governors will consider that the requirement of the regulation with respect to the prior approval of loans not exceeding $2500 is met in a case in which a majority of the board of directors of a member bank grant continuing authority for such a loan or extension of credit to an executive officer if such approval by its terms remains in effect for only a reasonable period of time and in no event longer than twelve months. The authority given by the board of directors in such a case may, if desired, provide that the executive officer may borrow from time to time during the effective period of the approval granted, upon condition, of course, that the amount of the indebtedness outstanding at any one time does not exceed $2500.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

September 24, 1937.

Mr. __________, Vice President,
Federal Reserve Bank of ______,
______________, ____________.

Dear Mr. ________:

Reference is made to your letter of September 14, 1937, relating to the effect, under Regulation T, of the stamping of Convertible $6.50 Cumulative Preferred Stock of the __________ Company with a legend to indicate the acceptance by the stockholder of a certain offer to exchange this stock for other securities. The question presented is, in effect, whether a customer with a restricted account containing the stock in question may be permitted, without the deposit of additional margin, to have such stock stamped in this manner, and thereafter to consummate the exchange offer.

Since the inquiry involves the question of whether and at what time the stock becomes a different security and hence, in the absence of a separate registration, an unregistered security, the views of the Securities and Exchange Commission were requested on this point.

There is attached a copy of a self-explanatory letter, dated September 22, 1937, from Mr. Harold H. Neff, Director of the Forms and Regulations Division of the Securities and Exchange Commission. It will be noted that Mr. Neff is of the opinion that the stamping of the stock here in question does not cause the stock to become a different security, that the stock does become a different security when the exchange offer becomes finally effective, but that the different security would then have a special exemption under Rule AN19.

The Board sees no reason to differ with the views expressed by the Director of the Commission's Forms and Regulations Division. Accordingly, the Board is of the opinion that a customer with a restricted account containing the stock in question may be permitted, without the deposit of additional margin, to have such stock stamped to indicate the acceptance of the exchange offer. The Board is also of the opinion that in the circumstances the consummation of the proposal by accepting the new $5.50 Prior Preferred Stock in exchange for the stamped stock would not require the obtaining of additional margin regardless of whether or not the new Prior Preferred Stock is registered.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON

September 22, 1937.

Board of Governors of the
Federal Reserve System
Washington, D. C.

Gentlemen:

This will acknowledge the receipt of your letter of September 17, 1937, in which you request an opinion as to whether the Convertible $6.50 Cumulative Preferred Stock of the ______ ______________ Company will become a new security if the certificates are stamped with a legend evidencing the holder's acceptance of a certain exchange offer.

From the material which accompanied your letter, I understand the facts to be as follows: On September 30, 1937, the Preferred Stock will be in arrears on dividends in the amount of $38.44 per share. It is proposed to amend the Certificate of Incorporation to authorize a new issue of $5.50 Prior Preferred Stock, which is to be offered in voluntary exchange to the holders of the present Preferred. Preferred stockholders desiring to accept the exchange offer are required to forward their stock certificates to the ____________ Trust Company, agent for the issuer, to be stamped as follows:

> "The holder of the shares of stock represented by this certificate has accepted, and every successive holder or registered owner thereof by becoming such accepts, the exchange offer . . . and each such holder or registered owner agrees to be, and is, bound by all the terms and provisions of said exchange offer and Letter of Transmittal; subject, however, to said exchange offer's becoming finally effective and to the right of such holder or registered owner to revoke or withdraw such acceptance, as provided in said exchange offer and said Letter of Transmittal."

The Letter of Transmittal provides that the acceptance may be revoked by written notice at any time before the Board of Directors declares the exchange offer effective. After the exchange offer is declared effective, the acceptance may be withdrawn by written notice until the close of business on the third

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business day following the date of mailing the notice that the exchange offer has become effective. The exchange offer becomes finally effective at the close of such three-day period unless the holders of more than 5% of the shares withdraw, in which event the plan may, nevertheless, be declared effective at any time within 15 days. If the exchange offer does not become finally effective within 15 days after the expiration of the withdrawal right, or in any event, on or before December 1, 1937, holders of stamped certificates are entitled to turn them in and receive instead unstamped certificates.

Under the circumstances the acceptance of the exchange offer by the preferred stockholder would not appear to create a binding obligation upon either the corporation or the stockholder, and in my opinion, the stamping of an endorsement evidencing the acceptance upon the certificates would not make the Preferred Stock a new security as to which a new application for registration is required. On the other hand, when the exchange offer becomes finally effective, stamped certificates come to represent a new or additional security which would have to be registered, if trading is to continue on a national securities exchange, unless an exemption is available. It is my opinion, on the basis of the facts stated, that the temporary exemption under Rule AN19 would be available to this new security. It should be pointed out, however, that unless registration were effected with reasonable promptness, proceedings would be in order under paragraph (c) of Rule AN19 to terminate this exemption.

If you have any further question, I shall be glad to be of service.

Very truly yours,

(Signed) Harold H. Neff

Harold H. Neff
Director
Forms and Regulations Division

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Federal Reserve Bank of St. Louis

S-36
Reg. T-61

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

October 13, 1937.

Mr. ________________, Vice President,
Federal Reserve Bank of ____________,
____________, __________.

Dear Mr. _____________:

Reference is made to your letter of August 20, 1937, and our letter of October 2, 1937, relating to the status, under Regulation T, of the certificates of deposit for the 5% Convertible Collateral Trust Bonds of (B) Corporation and the stamped certificates of capital stock of The (A) Corporation involved in a proposed plan to consolidate these two corporations.

As indicated in our letter of October 2, the views of the Securities and Exchange Commission were requested in connection with the question of whether or not the certificates of deposit and the stamped stock are registered securities. There is attached a self-explanatory letter from Mr. Harold H. Neff, Director of the Commission's Forms and Regulations Division, from which it will be noted that Mr. Neff is of the opinion that the stamped stock and the certificates of deposit here in question are, respectively, not the same securities as the unstamped stock and the bonds for which the certificates were issued, and that neither the stamped stock nor the certificates are registered securities under the Securities Exchange Act of 1934.

The Board sees no reason to differ with the views expressed by the Director of the Commission's Forms and Regulations Division and also is of the opinion that the stamped stock and the certificates of deposit, respectively, should not be considered to represent, for the purposes of Regulation T, the unstamped stock and the bonds for which the certificates are issued. Accordingly, it is the view of the Board that, in the case of a customer with a restricted account containing the unstamped stock or the bonds in question, the creditor may not, without the deposit of additional margin, permit the stock to be stamped or release the bonds from the account against the receipt of the certificate of deposit.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Attachment.

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SECURITIES AND EXCHANGE COMMISSION

Washington

October 8, 1937.

Board of Governors of the
Federal Reserve System
Washington, D. C.

Gentlemen:

This will acknowledge the receipt of your letter of October 2, 1937, in which you request an opinion whether the stamped certificates of Capital Stock of (A) Corporation and certificates of deposit for the 5% Convertible Collateral Trust Bonds of (B) Corporation, issued in connection with the plan of consolidation of the two corporations, are securities registered on a national securities exchange under the Securities Exchange Act of 1934.

With respect to the stamping of the stock of (A) Corporation, I understand the relevant facts to be as follows: Under the Agreement of Consolidation dated August 17, 1937, holders of the stock of (A) Corporation other than the (B) Corporation are to receive in exchange for each share held one share of 5% Cumulative Convertible Prior Preferred Stock of the new corporation, which is to be known as (C) Corporation. As an alternative, however, stockholders of (A) Corporation are offered common stock of _________ Railway Company on the basis of $1\frac{1}{2}$ shares of Railway Company stock for each share of (A) Corporation. Holders desiring to accept this alternate offer were required to present their certificates on or before August 16, 1937, for stamping thereon of a notation of such acceptance.

As to the (B Corporation) bonds, the Agreement of Consolidation provides that the new corporation will assume the bonds and will upon resolution of the board of directors pay $200 in cash and $800 par value of 5% Cumulative Convertible Prior Preferred Stock in the new corporation in exchange for each $1,000 principal amount of the bonds. The Plan of Consolidation provides that bondholders desiring to accept this exchange offer must deposit their bonds with a designated depositary in exchange for a registered transferable certificate of deposit. Bonds so deposited may be withdrawn at any time prior to the acceptance by the new corporation of the offer of exchange.

It is my opinion, on the basis of the facts stated above, that the stamped stock and the certificates of deposit are, respectively, not the same securities as the unstamped stock and the bonds for which the certificates were issued. Accordingly, since no application has been filed for registration of the stamped stock or the certificates of deposit, neither of these securities is presently registered under the Securities Exchange Act of 1934.

Very truly yours,
(Signed) Harold H. Neff
Harold H. Neff
Director
Forms and Regulations Division

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Federal Reserve Bank of St. Louis

S-37
Reg. U-22

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

October 19, 1937.

Mr. ________________, Vice President,
Federal Reserve Bank of ____________,
____________, ____________.

Dear Mr. ________:

Reference is made to your letter of October 13, 1937, regarding the inquiry submitted to your bank by Mr. __________, Vice President of __________ Trust Company of _________, relating to section 3(i) of Regulation U.

It is understood that the ________ Trust Company made a loan to an individual pursuant to Regulation U, and that by reason of depreciation in the market value of the collateral the margin behind the loan became less than the bank customarily requires to be maintained for its own protection. In reply to the bank's call for additional margin, the borrower advised the bank that his wife had an ordinary securities account at a brokerage office and was willing to transfer her account to the bank in order to give the bank the protection of her equity in the account. The wife's account at the brokerage office has a substantial equity but is a restricted account and, therefore, could not be taken over by the bank as an ordinary increase in the bank's loan to the husband. Section 3(e) of the regulation, which makes special provision for transfers between lenders, provides only for transfers from one bank to another bank.

Section 3(i) of Regulation U provides:

> "Nothing in this regulation shall be construed as preventing a bank from taking such action as it shall deem necessary in good faith for its own protection."

Mr. _________ indicates that, while the taking over of the wife's account to strengthen the husband's loan would afford the bank additional protection, the bank would like the Board's views as to whether this would be considered to be "necessary" for the bank's protection within the meaning of section 3(i). In this connection he points out that there are, at least in theory, three other methods by which the bank could be protected. The bank could take an assignment of the equity in the wife's account, securities could be liquidated from the husband's loan, or securities could be liquidated from the wife's account sufficient to make the account unrestricted and the account could then be transferred as an ordinary increase in the husband's loan. In

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other words, the transfer is not indispensable to the protection of the bank, although it probably would be more satisfactory than any of the other methods.

"The word 'necessary' has not a fixed meaning or character peculiar to itself, but is flexible and relative. * * * It may mean something which in order to accomplish a given object cannot be dispensed with, or it may mean something reasonably useful and proper." Marshall County v. Rokke, (Minn. 1916) 159 N.W. 791; Words and Phrases (Series 1-4); Black's Law Dictionary Third Edition (1933). From this scale of meanings, the word, as used in section 3(i), should, of course, receive that graduation of meaning that is most appropriate in the light of the general purposes of the regulation.

The Board feels that a particular action might be "necessary" for the bank's protection even though it might not be indispensable for such protection. On the other hand, the Board is of the opinion that an action should not be considered to be "necessary" for the bank's protection, within the meaning of section 3(i), merely because it might afford some incidental protection to the bank.

The Board believes that the proper test to be applied under section 3(i) is, in effect, whether the action is reasonable and appropriate as one whose only important purpose is to strengthen the collateral for one of the bank's existing loans. While this does not mean that the action must be indispensable to the safety of the loan, it necessarily means that the action could not be actively engaged in with a view to increasing the bank's loan portfolio and could not be promotional or competitive in nature.

Mr. ______'s caution in wishing to be certain that his bank operates in strict conformity with the spirit and purpose of Regulation U, as well as its letter, is, of course, highly commendable. The Board believes, however, that the possibility of protecting the bank by some other methods, as indicated in Mr. ______'s inquiry, does not prevent the proposed transfer from being "necessary" for the bank's protection. On the basis of the facts indicated, and assuming the absence of promotional or competitive features as discussed above, the Board is of the opinion that the transfer would be permissible under the provisions of section 3(i).

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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Federal Reserve Bank of St. Louis

S-38
Reg. A-1

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1937.

SUBJECT: Comments of Federal Reserve Banks on Regulation A.

Dear Sir:

Pursuant to the Board's letter of July 30, 1937 (R-41), all of the Federal Reserve banks submitted their comments and suggestions with regard to the proposed revision of Regulation A. The suggestions and criticisms received from the Reserve banks were of much assistance to the Board and to its staff in working out the final form of the regulation, and the Board wishes to express appreciation to the banks for the thorough consideration which was given by them to the proposed regulation.

It seems appropriate to refer to the more important suggestions which were made by the banks, especially those which were not incorporated in the final regulation, and to state some of the considerations which influenced the Board and its staff in reviewing these suggestions.

General Principles. - Several banks made suggestions as to the elimination or modification of the preface to the regulation entitled "General Principles", and in the light of these comments certain changes have been made in the statement of General Principles in the final form of the regulation.

Section 1. Discount of notes, drafts and bills for member banks. - Two of the Federal Reserve banks suggested that sections 1 and 2 be reversed so that the provisions relating to discounts would come first and those relating to advances would be next in order in the regulation. This suggestion has been adopted, as well as a suggestion that the subsection entitled "Advances on eligible paper" precede that entitled "Advances on Government obligations" in what is now section 2 of the regulation.

Section 1(a). Commercial, agricultural and industrial paper. - One of the Federal Reserve banks suggested that the question

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whether paper the proceeds of which are loaned to some other borrower be made eligible for discount should be submitted to a committee of Presidents for study and recommendation before any change was adopted. The subject is one which has had thorough consideration over a number of years past, and it was felt that additional study would develop little important information not already available on the subject. Accordingly, it was considered that no sufficient reason existed for deferring a decision with respect to the matter.

Section 1(c). Construction loans. - Two of the Federal Reserve banks suggested that what is now footnote 4 under "Construction loans" be changed so as to exclude the offering member bank from the "persons" who may enter into the agreement to advance the full amount of the loan upon the completion of the construction financed by the note offered for discount. Since member banks are permitted to make mortgage loans it was not thought that a member bank should be excluded from entering into such an agreement merely because it was extending the construction loan. The question whether a member bank is an acceptable "person" in any given case is essentially one of credit, to be considered by the Federal Reserve bank in the light of the facts in the particular case rather than one of eligibility.

Section 1(i) Limitations. - Two of the Federal Reserve banks called attention to the last sentence of this subsection with regard to the amount of the paper of one borrower discountable for a State member bank. The law itself contains a provision in the twelfth paragraph of section 9 that no Federal Reserve bank shall be permitted to discount for any State bank or trust company notes, drafts or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association, and the regulation merely restates the provision of the statute. The same limitation is not applicable with respect to national banks, because a Federal Reserve bank is forbidden by the law to discount for a national bank only the amount of paper of one borrower which is in excess of the limitations of section 5200 of the Revised Statutes. The distinction is one which occurs in the statute itself, and it did not seem desirable to make the limitation of the regulation with respect to national banks more stringent than provided in the law merely because the law subjects State member banks to the more restrictive provision.

Section 2(c). Advances on other security under section 10(b) of the Federal Reserve Act. - It was suggested that the words

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"highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act" be changed to "highest discount rate". This change was not adopted because it was thought that the regulation should conform to the existing practice and to the manner in which the statute has been consistently interpreted.

One of the Federal Reserve banks suggested a rewording of clause (2) at the end of this subsection so that it would read "on demand at the option of the Federal Reserve bank". This particular clause of the regulation is one which has been rephrased several times and has been made the subject of careful study in the light of suggestions previously received from the Federal Reserve banks. It is believed that the language as incorporated in the final form of the regulation accurately reflects the statute and will work out satisfactorily in practice. It did not seem clear that the substitute language suggested was in accord with the intention of the statute.

<u>Section 2(d). Kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act.</u> - The views of the Federal Reserve banks with regard to the provisions of this subsection were not uniform, one or two feeling that the provisions were undesirable, while others offered no objection to them. Certain suggestions for specific changes in phrasing were made. The Board felt it desirable to retain the provisions in the final regulation as an indication of a preferred list of collateral for advances by Federal Reserve banks under section 10(b) of the Federal Reserve Act, but with the general provision that such advances may be made against any collateral satisfactory to the Federal Reserve bank when in its judgment circumstances make it advisable to do so.

Several banks suggested that the wording of the subparagraph relating to loans upon the security of stock made in conformity with Regulation U be changed so that it would apply to obligations evidencing loans upon the security of stock which are not made in violation of the provisions of Regulation U. It was thought that such a change would make the provision more comprehensive than it should be, and inasmuch as the paragraph constitutes merely a preferred class of collateral, without rendering ineligible as collateral other nonconforming loans on stock, there was no sufficient reason for broadening the subsection in the manner suggested.

One of the Federal Reserve banks suggested that it would be appropriate to include in this subsection reference to the fact that the loan value of assets acceptable under section 10(b) is

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subject to determination of the Reserve bank. In view of the provision which has been included in section 3(d) with reference to the amount of assets required as collateral "at their reasonable value determined in a manner satisfactory to the reserve bank", it is believed that the purpose of this suggestion has been substantially met.

It was also suggested that all obligations of the kinds enumerated in this subsection as security for advances under section 10(b) should be negotiable in form. Inasmuch as the law permits a Federal Reserve bank to accept any assets satisfactory to it as collateral security for advances under section 10(b), it was thought that the regulation should not make any specific requirement with respect to negotiability of assets securing such advances but that the question whether non-negotiable assets should be taken as such security should be treated as one affecting acceptability from a credit standpoint for consideration by the Federal Reserve bank in each case.

Section 3(a). Applications for discounts or advances. - One Federal Reserve bank called attention to the fact that this subsection does not require that the applying bank shall certify in its application that the paper offered is eligible for discount under the terms of the regulation. Under the regulation each Federal Reserve bank is free to use its own discretion as to whether it will include such a requirement in its discount application forms. It appeared unnecessary from the standpoint of the Board to make the inclusion of such a requirement mandatory.

Section 3(d). Marginal Collateral. - Comments were made by the Federal Reserve banks upon the question whether it was desirable that the Board make any statement regarding the amount of marginal collateral required by the Reserve banks. Some objected and others offered suggestions as to the phraseology which might be used in this connection. This point was thoroughly discussed by the Board and its staff and consideration was given to the desirability of making any such statement, whether such a statement should be incorporated in a letter to the Federal Reserve banks or in the regulation itself, and what specific limitation on the amount of marginal collateral should be prescribed. As you know, the regulation as adopted does not forbid a Federal Reserve bank to accept collateral in excess of the percentages named, but provides that Federal Reserve banks shall report to the Board in the loan schedule the facts of any case

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in which the amount of collateral exceeds 25 per cent of the amount of a discount or 125 per cent of the amount of an advance.

Section 3(e). Credit on security of obligations of the United States. - A number of the Federal Reserve banks offered objection to the provision contained in the draft of the regulation inclosed with R-41 relating to the amount of credit extended on security of obligations of the United States, and indicated a number of administrative difficulties in connection with any such provision. This provision has been considerably modified in the final regulation and requires merely that where the amount advanced on the security of obligations of the United States is less than par, the bank must report the facts to the Board in the loan schedule. This is not intended to mean that such a report must be made in a case in which a member bank obtains the full amount requested by it, but if the member bank requests an advance in the full par amount of the Government obligations offered as security and the advance is made at less than par the facts and circumstances should be reported in accordance with the regulation.

Section 4(a). Prohibition upon acceptance of nonmember bank paper. - Some of the Federal Reserve banks suggested the desirability of revising the exception to the prohibition upon the acceptance of nonmember bank paper as it appeared in the draft of the regulation submitted with R-41. After consideration of these suggestions, the prohibition has been reworded so as to except therefrom assets otherwise eligible which were purchased by the offering bank on the open market or otherwise acquired in good faith and not for the purpose of obtaining credit for a nonmember bank.

The subject of the acceptance of nonmember bank paper for discount or as security for advances under section 10(b) of the Federal Reserve Act is now governed exclusively by the provisions of section 19 of the Federal Reserve Act and section 4 of the revised Regulation A, the prohibition in the revised regulation being intended as a revocation of the blanket authority heretofore outstanding which was granted by the Board's telegrams of March 11 and March 13, 1933 (Trans Nos. 1620 and 1659) and which authorized Federal Reserve banks under certain conditions to discount or accept as security for advances paper acquired from or bearing the signature or indorsement of nonmember banks.

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Section 6. Bankers' acceptances. - In accordance with the suggestions of several Federal Reserve banks, there have been restored to the regulation as finally approved the words "between foreign countries" in paragraph (1) of subsection (b) and the words "or issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn" in paragraph (3) of subsection (b). The restoration of these provisions brings the new regulation into conformity in these respects with the old regulation.

Recommendations as to minimum standards in making real estate loans and installment loans. - Some of the Federal Reserve banks recommended the elimination from the Appendix of the recommendations of the Board regarding minimum standards for installment paper and real estate loans used as collateral security for advances to member banks, while others favored their retention. After being modified in several respects to meet specific suggestions of the Federal Reserve banks with regard to the provisions of these recommendations, they have been retained in the Appendix in the hope that they may serve to encourage sound practices by member banks.

General. - Several suggestions as to wording or phraseology made by the Federal Reserve banks were not adopted because of the desire to have the language of the regulation follow the language of the statute where this was practicable, unless the use of other language appeared to be desirable for some special reason. It may also be said that in a very general way the provisions of the old regulation which are found in the new regulation have been carried forward in substantially the same form unless some material reason for changing the language appeared to make modifications desirable.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

S-39

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

October 25, 1937.

SUBJECT: Rulings by the Board of Governors on abstract or hypothetical questions.

Dear Sir:

From time to time in the past the Board of Governors has declined to issue rulings or pass upon questions submitted upon the basis of abstract inquiries or hypothetical cases, but it has not followed a uniform practice in this regard.

The issuance of rulings upon the basis of abstract or hypothetical questions is in the Board's opinion an undesirable practice which is fraught with the possibility of misunderstanding or confusion. When an abstract question is considered it is not possible to visualize all of the different concrete situations which may arise within the scope of any answer which may be given. Consequently, it is difficult to limit the answer in such a way that it may not appear to apply to situations which were not in mind in the preparation of the answer and with respect to which the answer given might be inapplicable. Moreover, in order that any question may have thorough consideration it is, of course, necessary that all of the material facts which affect it should be known.

With these considerations in mind, the Board has decided that it will not issue rulings on abstract or hypothetical questions but only when a full and definite statement of the facts of an actual case is before the Board. An exception to this policy may be made in individual cases, however, when the question presented is one which is almost certain to arise in an actual transaction and a full explanation of the matter is presented to the Board, including the reasons why it is contemplated that such a question will arise.

When a Federal Reserve bank finds it desirable to submit to the Board a question which has arisen in its operations or has been submitted to it either by a member bank or some other person, counsel for the Reserve bank should either prepare or review the statement of the question and the facts to be submitted to the Board with a view to a full and adequate presentation of the case, and he should include an expression of his views with regard to the question presented.

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It is expected, however, that Federal Reserve banks will continue the practice now followed of disposing of questions presented to them in so far as possible on the basis of previous rulings of the Board, and that they will submit questions to the Board for consideration only when they have specific requests to do so or when after full consideration they feel that the questions are of such a nature or of such importance that it is advisable that the Board be asked to pass upon them.

It is believed that the policy above described will be more satisfactory than the practice which has prevailed heretofore and will entail less possibility of misunderstanding or confusion as to the scope or meaning of rulings made by the Board. The cooperation of the Federal Reserve banks in carrying out this policy will be appreciated by the Board.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1937.

Dear Sir:

It appears that since the Reconstruction Finance Corporation, in accordance with its program, may not grant any further commitments to make industrial advances and may not make any more industrial advances, except under commitments heretofore granted, the Federal Reserve banks may receive a much larger number of requests for industrial advances or commitments to make such advances than has been the case in the recent past. The Board hopes that sympathetic consideration will be given to such applications as are received and that advances will be made where the banks can consistently do so under the provisions of the law and the Board's regulations.

Mr. Szymczak has already talked with an official of your bank over the telephone and acquainted him with the Board's position in this matter; he has also been in touch with Washington officials of the Reconstruction Finance Corporation and he requested the representative of your bank with whom he talked to get in touch with the local Reconstruction Finance Corporation agency with a view of working out a procedure by which all worthy applicants will be referred to the Federal Reserve bank.

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For obvious reasons the Board does not think it desirable at this time to conduct a campaign on this subject, but it hopes that particular pains will be taken to guard against the public getting the impression that the Federal Reserve System has also discontinued making industrial advances. In this connection you may think it desirable to talk with representative bankers in your district from time to time with respect to the facilities in this field which the Federal Reserve banks have to offer.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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S-41
Reg. Q-32

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 30, 1937.

SUBJECT: Classification of Deposits of Certain Organizations as Savings Deposits.

Dear Sir:

For your information there is inclosed herewith a copy of a ruling which has just been approved by the Board of Governors and which will appear in the November number of the Federal Reserve Bulletin, relating to the classification of deposits of certain organizations as savings deposits under the definition in Regulation Q.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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S-41-a
Reg. Q-32

Classification of Deposits of Certain Organizations as Savings Deposits

The definition of savings deposits in Regulation Q, which relates to payment of interest on deposits, and in Regulation D, which relates to reserves of member banks, reads in part as follows:

> "The term 'savings deposit' means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, * * *."

It will be noted that under this definition member banks may classify deposits of one or more individuals as savings deposits if the deposits comply in other respects with the regulation; but they may not classify deposits of any corporation, association or other organization as savings deposits unless (1) such organization is operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes; (2) such organization is not operated for profit; and (3) such deposits comply in other respects with the requirements of the regulation.

With respect to many organizations such as churches, charity hospital associations, fraternal orders and endowed educational institutions which are not operated for profit, no questions have arisen since such organizations are obviously operated for religious, philanthropic, charitable, educational, fraternal or other similar

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purposes. However, numerous questions have arisen as to whether deposits of certain other types of organizations which are near the border-line of the definition may be classified by member banks as savings deposits. The Board has given careful study to these questions and has reached the conclusion that the types of organizations set forth below may be considered to be operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and, therefore, that deposits of such organizations may be classified by member banks as savings deposits if the organizations are not operated for profit and if the deposits otherwise comply with the requirements of the definition.

Professional associations, such as bar, medical, and dentists' associations.
Trade associations, including manufacturers' associations, retailers' associations, and chambers of commerce.
Business men's clubs, such as Rotary Clubs and Kiwanis Clubs.
Recreational clubs, such as golf and tennis clubs.
Social clubs, such as luncheon clubs and college fraternities.
Labor unions of the usual type.
Volunteer fire companies and ladies auxiliaries thereof.
Cemetery associations.
School districts.
Police or firemen's pension or relief associations (including a special fund held by a political subdivision to provide pensions for police or firemen).
American Automobile Association, Retired Officers Association, and other similar organizations.

The Board has also reached the conclusion that deposits of the organizations listed below may not be classified by member banks as savings deposits either because the organizations are not operated primarily for religious, philanthropic, charitable, educational,

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fraternal or other similar purposes or because they are operated for profit.

Building and loan associations.
Mutual or cooperative fire or life insurance associations.
Reciprocal or inter-insurance associations.
Cooperative marketing associations, such as citrus growers or dairymen's cooperative marketing associations.
Credit unions, Federal or State.
States and municipalities and other political subdivisions thereof (except school districts) including departments, boards, and commissions of such political subdivisions.

Although deposits of the types of organizations listed immediately above may not be classified by member banks as savings deposits for the purpose of payment of interest or of computation of reserves, attention is invited to the fact that any of such organizations may maintain time deposits with member banks. With respect to such deposits, which may be either in the form of time certificates of deposit or time deposits open account, member banks may pay interest in accordance with the provisions of Regulation Q and maintain reserves in accordance with the provisions of Regulation D relating to time deposits.

The above lists of organizations which may or may not maintain savings deposits in member banks are not intended to be complete but merely contain examples compiled from various cases which have been submitted to the Board. Any necessary inquiry as to the proper classification of other organizations for this purpose should be submitted directly to the Federal Reserve bank of the district in which the inquiry arises rather than to the Board. The Federal Reserve banks will, in so far as possible, answer such questions in the light of the illustrative cases stated above.

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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

October 29, 1937.

Mr. _________, Vice President,
Federal Reserve Bank of _________,
__________, ___________.

Dear Mr. _________:

Reference is made to your letter of October 18, 1937, regarding Regulation U.

It is understood that a bank made a loan to a brokerage firm pursuant to Regulation U and that subsequently, when the market value of the collateral declined below that which the bank customarily requires to be maintained for its own protection, the bank issued a demand for margin, although such margin was not required by the regulation. Since the brokerage firm received the margin call on Saturday and it was customary with the firm to eliminate the routine operations incident to entering vaults to obtain securities on Saturdays when deliveries and clearances of securities are not usually effected, the firm proposed that it be permitted to deposit a certified check on Saturday in temporary satisfaction of the demand for margin, and that on Monday it be permitted to replace the certified check with stocks.

The certified check would be made for an amount equal to the current market value of the securities to be deposited rather than the maximum loan value of such securities, since a certified check limited to the maximum loan value of the securities might not afford the bank as much protection as the securities. The question presented is whether this procedure may be followed.

As indicated in the Board's letters S-26 and S-32 of August 5 and September 3, 1937, the withdrawal of a certified check against the deposit of an equal market value of stocks ordinarily would not be permissible when the amount of the loan exceeds the maximum loan value of the collateral, since the substitution would reduce the maximum loan value of the collateral and thus increase the deficiency. It appears in the present case, however, that margin would be deposited to satisfy the bank's maintenance requirements rather than any requirement of Regulation U, that the entire transaction would be completed within what amounts to only a comparatively few business hours, that the procedure would be followed in entire good faith and not for the purpose of evading the regulation, and that the net effect of the procedure, which would

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facilitate the usual operations of the brokerage firm, would be the same as if the securities had originally been deposited on Saturday or the margin call had not been met until Monday.

In the circumstances, the Board is of the opinion that the substitution of the securities for the certified check need not be separated from the other portions of the transaction and that the entire transaction may be considered according to its net results and be treated for the purposes of the regulation as if the securities had been deposited on Saturday or the margin call had not been met until Monday. The Board believes the transaction would be permissible on this basis although, of course, an entirely different situation might be presented if any of the circumstances were altered.

In view of the discussion above, it is believed that it is not necessary at this time to express any opinion as to the other considerations referred to in your letter.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

October 29, 1937.

(Addressed to a Vice President
of a Federal Reserve bank)

Re your wire October 21 and letter October 18 re Regulation T. It is understood that question is whether, if a customer substitutes exempted securities for a portion of the registered nonexempted securities in a restricted account, the broker may treat the exempted securities as having a maximum loan value not greater than they would have if they were registered nonexempted securities, and at some subsequent period when the account is still restricted may, without demanding additional margin, permit the exempted securities to be replaced by registered nonexempted securities of equal market value.

Section 2(h) of Regulation defines "maximum loan value" of a security as maximum amount of credit which may be extended on the security in conformity with section 3. Under section 3(e) this maximum for exempted securities in present case would be not more than their current market value. Although broker may fix lower loan values for his own purposes this would not affect "maximum loan value" for purposes of the regulation. Accordingly, replacement of exempted securities with registered nonexempted securities of equal market value would increase the excess of the adjusted debit balance of the restricted account over the maximum loan value of the securities in the account and could not be permitted unless broker demanded additional margin.

(Signed) L. P. Bethea

BETHEA

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1937.

Dear Sir:

A review of the discount schedules received from the various Federal Reserve banks since October 1, when revised Regulation "A" became effective, indicates that it is desirable to clarify certain points as to the Board's requirements with respect to the reporting of excess or marginal collateral.

No special report need be submitted in any case where the additional collateral is voluntarily pledged by the borrower and is not required by the Federal Reserve bank.

Schedules reporting discounts and advances secured by direct obligations of the United States, or obligations fully guaranteed by the United States, on which collateral in excess of the amount advanced is required by the Federal Reserve bank should show the face value of the collateral pledged and contain a complete statement of the reasons for the requirement.

Schedules reporting discounts and advances other than those secured by United States Government obligations on which marginal or excess collateral with a face value of more than 25 percent of the discount or advance is required by the Federal Reserve bank should show both the face value and the reasonable value, as determined by the Federal Reserve bank, of the marginal or excess collateral, and, if the reasonable value as determined by the Federal Reserve bank is more than 25 percent of the discount or advance, the schedules should contain a complete statement of the reasons for the requirement.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

S-45
Reg. Q-33

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

November 12, 1937.

Honorable J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. O'Connor:

This refers to Mr. Gough's letter of September 20, 1937, presenting the question whether deposits of the ________ Mutual Burial Association and the __________Mutual Benefit Association may be classified by member banks as savings deposits under the definition in section 1(e) of Regulation Q.

It is understood from Mr. Gough's letter that these two associations are operated by local undertakers under the mutual burial insurance laws of (name of State); that the funds on deposit represent 10 per cent of the assessments collected from members of the respective associations and constitute reserves for the purpose of paying claims brought about by unusual circumstances causing the death of a greater number of members than is ordinarily anticipated, such as an epidemic of sickness or a tornado; that the associations also carry regular checking accounts in which they deposit all of their dues except the 10 per cent deposited in savings accounts; that the associations are nonprofitable and make no other investments; and that the interest derived from the savings deposits inures to the benefit of the reserve funds.

The Board of Governors has recently taken the position that deposits of mutual or cooperative fire or life insurance associations may not be classified by member banks as savings deposits and it is our opinion that deposits of the above associations which are operated under the mutual burial insurance laws of (name of State) fall within the scope of this ruling. Accordingly, it is our view that deposits of these associations may not be classified by member banks as savings deposits.

Very truly yours,

(Signed) L. P . Bethea

L. P. Bethea,
Assistant Secretary.

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Federal Reserve Bank of St. Louis

S-46
Reg. Q-34

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

November 12, 1937.

Honorable J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Comptroller:

This refers to Mr. Prentiss' letter of September 18, 1936, inclosing a copy of a letter from the _______ National Bank, ________, ________, presenting the question whether a deposit of the ______________________ Poor District may be classified by a member bank as a savings deposit under the definition in section 1(e) of Regulation Q.

The Board of Governors has recently taken the position that a school district may be considered as an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes within the meaning of section 1(e) of Regulation Q and that a deposit of such a district may be classified as a savings deposit if it complies with the other requirements of the definition. On the same basis, a poor district constituting a separate political subdivision the primary function of which is the care and relief of the poor may be considered as an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and, therefore, a deposit of such a district may properly be classified by a member bank as a savings deposit provided the deposit complies with the other requirements of the definition.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

November 13, 1937.

Mr. ___________, Chief Examiner,
Federal Reserve Bank of _______,
________, ____________.

Dear Mr. ____________:

This refers to your letter of June 11, 1937, and inclosures, presenting the question on behalf of the _________ Trust Company, _________, _________, whether funds of the local chapter of the Railroad Employees' National Pension Association may be classified as savings deposits under the definition in section 1(e) of Regulation Q.

It is understood from the copy of its Constitution and By-laws that the Association is a corporation organized without capital stock, not for profit, for the purpose of obtaining retirement and disability pensions for all members of railroad companies, express companies, and pullman companies under the regulatory power of Congress. The Constitution of the Association also provides that in the event a satisfactory retirement pension is achieved through an act of Congress the Association may be liquidated by a convention or, at the discretion of the delegates, the Association may be continued as a national legislative association for railroad employees.

As you know, the Board of Governors has recently taken the position that labor unions of the usual type may be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and that deposits of such organizations may be classified as savings deposits if the organizations are not operated for profit and if the deposits otherwise comply with the requirements of the definition. It appears that the Railroad Employees' National Pension Association has sufficient similarity to a labor union to cause it to fall within the scope of the Board's recent ruling and, accordingly, deposits of such Association may be classified by a member bank as savings deposits if they otherwise comply with the requirements of the definition.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-48
Reg. D-7

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 19, 1937.

Dear Sir:

For your information there is inclosed a copy of a letter written to the Federal Reserve Bank of Chicago under date of November 19, 1937, with respect to the waiving of penalty on deficiencies in reserves of member banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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November 19, 1937.

Mr. G. J. Schaller, President
Federal Reserve Bank of Chicago
Chicago, Illinois

Dear Mr. Schaller:

Reference is made to your letter of October 27 in regard to the waiving of penalties for deficiencies in reserves of member banks.

The Board appreciates that there may be exceptional circumstances when it would be desirable to disregard the reserve computation period in which a bank becomes a member of the System insofar as the assessment of a penalty for a deficiency in reserves is concerned and also to waive the assessment of a penalty for the first deficiency in reserves occurring subsequent to such reserve computation period, and accordingly modifies paragraph (b) of its letter X-7411 of April 14, 1933, to read as follows:

> "(b) When a member bank is deficient in its reserves during the reserve computation period within which it became a member, a penalty for such deficiency may be assessed or not, in the discretion of the Federal Reserve bank. When, for the first time subsequent to the reserve computation period within which a bank became a member, there is a deficiency in its reserves, which is subject to a penalty, such penalty may be assessed or not as the Federal Reserve bank may determine upon consideration of the circumstances of the case."

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-49
Reg. A-2

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1937

SUBJECT: Discount of Consumers' Paper
by Federal Reserve Banks.

Dear Sir:

For your information there is inclosed herewith a copy of a letter which the Board has addressed to the First Vice President of the Federal Reserve Bank of San Francisco with regard to the question whether a note given directly to a member bank, the proceeds of which are used by the maker of the note to purchase goods for use and not for resale, is eligible for discount by a Federal Reserve bank under Regulation A.

A ruling incorporating the substance of the inclosed letter will be published in the December number of the Federal Reserve Bulletin, and Federal Reserve banks may advise member banks of the Board's position in this matter immediately if they so desire.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

November 23, 1937.

Mr. Ira Clerk, First Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Clerk:

This refers to your telegram of October 1, 1937, and our reply of October 2, 1937, and to our later correspondence with regard to the question whether a note given directly to a member bank, the proceeds of which are used by the maker of the note to purchase goods for use and not for resale, is eligible for discount by a Federal Reserve bank under Regulation A. In this connection it should be noted that the regulation permits paper, the proceeds of which are advanced or loaned to some other borrower, to be discounted provided the proceeds are used by such other borrower for a commercial, agricultural or industrial purpose, and provided the paper is of proper maturity and meets the other requirements of the regulation. If, therefore, the purchase of goods for use and not for resale is regarded as a commercial transaction, the note of a finance company, the proceeds of which have been or are to be used to finance the purchase of goods by consumers, may be eligible for discount.

Section 13 of the Federal Reserve Act authorizes a Federal Reserve bank, under certain conditions, to discount "notes, drafts and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act."

It is the opinion of the Board that a borrowing for the purpose of making a purchase of goods is a borrowing for a commercial purpose, whether the borrower intends to use the goods himself or to resell them. A note of a buyer given to a seller in payment for articles purchased is clearly a note issued or drawn for a commercial purpose. However, the purpose of the note is the same, whether given by the buyer to the seller or given by the buyer directly to a bank or finance company, for in either case the proceeds are used to finance a sale-- a "commercial transaction". While it may be suggested that from a practical viewpoint there is a difference between the discount of such a note in the hands of the seller and a direct lending by a bank or finance company to the purchaser, there appears to be no justification for any such distinction from a legal standpoint. In either

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case the purpose of the giving of the note is to finance the final step in the distribution of goods, the sale to the consumer.

Accordingly, upon consideration of the question which has been presented, the Board has reached the conclusion that a note, the proceeds of which are used by the maker to purchase goods for use or consumption rather than for resale is a note arising out of an actual commercial transaction within the meaning of section 13 of the Federal Reserve Act. Accordingly, such a note given by the maker directly to a member bank will be eligible for discount by a Federal Reserve bank under Regulation A if it meets the applicable requirements of the regulation as to maturity and in other respects. For example, a note given to a member bank by a householder who uses the proceeds to purchase household equipment such as radios or furniture will be eligible for discount if it has a maturity at the time of discount of not exceeding 90 days. Likewise, the note of a finance company given to a member bank, the proceeds of which are loaned to other borrowers who use the funds thus obtained to purchase goods for use or consumption, will be eligible for discount by a Federal Reserve bank if the note meets the applicable requirements of the regulation as to maturity and in other respects.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-50

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1937

Dear Sir:

The daily balance sheet, Form 34, has been revised for use during 1938 and a proof copy will be sent you as soon as it is received from the printer.

Form 34 now provides for the deduction of reserves on bank premises and on certain miscellaneous assets from the respective assets to which they apply. Reserves to cover estimated losses on industrial advances or on other assets carried among bills and securities, however, are shown on the present Form 34 against the liability item "Reserves for losses not elsewhere provided for". In the published statements such reserves have been included with "Reserves for contingencies". Since reserves for contingencies are intended to take care of future unforeseen losses rather than losses of the kind above mentioned, Form 34 as revised for use in 1938 provides for showing "Reserves for contingencies" immediately following "Surplus" and "Reserves for estimated losses on bills and securities" as a separate item under "Miscellaneous liabilities". The latter item should include reserves for estimated losses on industrial advances and on discounted bills shown in the bills and securities block of the daily balance sheet. Accordingly, beginning January 1, 1938, reserves for estimated losses on industrial advances carried among "Bills and securities" should be shown against the new item "Reserves for estimated losses on bills and securities". All reserves except those deducted from assets and those shown against the caption "Reserves for estimated losses on bills and securities" should be reported against the caption "Reserves for contingencies".

The 1938 edition of Form 34 provides for showing the Hungarian credits under "Miscellaneous assets" against a new caption "Hungarian credits". Accordingly, beginning January 1, 1938, the reserves set up against such credits should be included with reserves deducted from "Miscellaneous assets".

Charge-offs of assets against which reserves for estimated losses are carried, whether such reserves are deducted from the particular assets or included in "Reserves for estimated losses on bills and securities",

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should be made direct to such reserves. If at the end of the year the reserve on a particular class of assets is in excess of the anticipated losses on such assets, the excess should be credited to profit and loss.

Inasmuch as reserves for contingencies are in effect a segregation of surplus, beginning with 1937 no additions to "Reserves for contingencies" should be charged to current net earnings. Further additions to reserves for contingencies should be charged direct to surplus, and the reserves thus established should be kept separate on the bank's books from contingent reserves heretofore set up, credits to which have been deducted from current net earnings in the annual profit and loss statements.

If it is desired at any time to reduce reserves for contingencies, the amount of the reductions should be included in the profit and loss statement as an addition to current net earnings until the contingent reserves set up out of current net earnings have been exhausted; and thereafter such reductions should be credited direct to surplus. By this procedure reserves which have been accumulated prior to 1937 through charges to current net earnings will be exhausted before any use is made of reserves accumulated by transfers from surplus.

There are inclosed copies of pages 40, 41 and 42 of the Board's Manual of Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks, which revised pages should be inserted in the copies of the Manual sent you in accordance with the Board's letter B-1200.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures

TO THE PRESIDENTS OF ALL F. R. BANKS

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FINANCIAL RESULTS OF OPERATION

A statement should be mailed, or telegraphed, to the Board in time to reach Washington on the morning of the second business day of the year, showing the financial results of operation of the Reserve bank for the preceding calendar year. The data should be furnished in the following form unless otherwise requested.

(Code)
EARL - Earnings from discounted bills . . . . $______
EDGE - Earnings from purchased bills . . . . ______
EASE - Earnings from Industrial Advances . . . . ______
EBOE - Earnings from commitments to make industrial advances . . . . ______
ESPY - Earnings from U. S. Government securities . . . . ______
ETCH - Other earnings (items 6 and 7 on form 95) . . . . ______
EACH - Total Current Earnings . . . . ______
EBON - Total operating expenses . . . . ______
EBUR - Less reimbursements for certain Fiscal Agency and other expenses . . . . ______
ECRU - Net operating expenses . . . . ______
EBAL - Assessment for expenses of Board of Governors . . . . ______
EBER - Cost of Federal Reserve Currency . . . . ______
EVER - Total current expenses . . . . ______
EARN - Current net earnings . . . . ______
ELBA - Additions to current net earnings $______
ENID - Deductions from current net earnings ______
EBID - Net additions to or deductions from current net earnings . . . . ______
EAST - Net earnings . . . . ______
EXIT - Payment to Sec. of Treas. (Section 13b) . . . . ______
EYRE - Dividends paid . . . . ______
ERSE - Transferred to surplus (Section 13b) . . . . ______
EVEN - Transferred to surplus (Section 7) . . . . ______
Total (to agree with item EAST) . . . . ______
CAPP - Paid-in capital January 1 (of new year) . . . . ______
TORK - Surplus (Section 7) January 1 (of new year) . . . . ______
TALC - Surplus (Section 13b) January 1 (of new year) . . . . ______
TOOK - Reserves for contingencies January 1 (of new year) . . . . ______

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ANNUAL PROFIT AND LOSS STATEMENT

A profit and loss statement, prepared in accordance with the attached forms, should be furnished the Board of Governors not later than January 15 of each year. In addition to Schedules "A", "B" and "C" the annual profit and loss statement should be accompanied by an analysis and reconcilement for the year of all reserves shown on Form 34 except those for F.D.I.C. stock and for depreciation of "Buildings (including vaults)" and "Fixed machinery and equipment". The analysis of "Reserves for contingencies" (item TOOK) should show separately reserves established prior to January 1, 1937, through charges against current net earnings and reserves established subsequent to January 1, 1937, through charges against Surplus (sec. 7).

If an account such as "Difference account", has a net credit balance for the Head Office and branches combined, it should be shown only in Schedule "A". In this case a minus sign should be used to indicate a net debit balance for a given office. Similar accounts having a net debit balance for the Head Office and branches combined should be shown in like manner in Schedule "B".

Where several small profit and loss entries are made during the year in a given account, only the net debit or credit in the amount should be shown as an addition to or as a deduction from current net earnings.

END OF YEAR BALANCE SHEETS, FORM 34

In addition to the regular balance sheet (Form 34) for the last day of the calendar year representing the condition of the bank after final closing of the books, a balance sheet should be submitted showing the condition of the Reserve bank at close of business but prior to the making of any year end closing entries.

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FEDERAL RESERVE BANK OF ____________

PROFIT AND LOSS STATEMENT FOR 19____

	Total	Head Office	____ Branch	____ Branch	____ Branch	____ Branch	____ Branch
Current earnings							
Current expenses							
Current net earnings							
Additions to current net earnings:							
Profit on United States Government securities sold - Net (if net loss show under "Deductions")		--	--	--	--	--	--
All other (Schedule "A")							
Total additions							
Deductions from current net earnings:							
Prior service contributions to Retirement System							
Special reserves on bank premises							
Charge-offs on bank premises							
Assessment for building for Board of Governors		--	--	--	--	--	--
All other (Schedule "B")							
Total deductions							
Net additions to (+) or deductions from (-) current net earnings							
Net earnings							
Paid U. S. Treasurer (Section 13b)		--	--	--	--	--	--
Dividends paid		--	--	--	--	--	--
Transferred to (+) or withdrawn from (-) surplus (Section 13b)		--	--	--	--	--	--
Transferred to (+) or withdrawn from (-) surplus (Section 7)		--	--	--	--	--	--

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Federal Reserve Bank of St. Louis

S-51
Reg. A-3

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks.)

December 4, 1937.

Mr. ________________, President,
Federal Reserve Bank of _________,
_______________, ________________.

Dear Mr ___________:

This refers to your letter of November 17, 1937, raising two questions with regard to the eligibility of paper of finance companies for discount under Regulation A.

Under the provisions of the revised regulation, a note of a finance company the proceeds of which are loaned to other borrowers for commercial purposes is eligible for discount by a Federal Reserve bank if the note complies with the applicable requirements of the regulation as to maturity and in other respects. In the case considered in the opinion of your counsel which was inclosed with your letter, it appears that the proceeds of a note of a finance company have been used in discounting for dealers paper evidencing the sale of goods on an installment basis and that the note of the finance company at the time of discount has a maturity of ninety days or less. Unless it fails to comply with the requirements as to eligibility in some other respect, therefore, the note would appear to be eligible for discount.

Your counsel indicates that his difficulty in considering the question of eligibility of finance company paper for discount arises out of the fact that under section 2(d) of Regulation A obligations of businesses principally engaged in extending credit on an installment basis and in substantial accordance with the recommendations contained in the appendix to the regulation are included among the preferred classes of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act. It may be pointed out in this connection, however, that not all paper of finance companies is eligible for discount under section 1 of the regulation. For example, if the proceeds of the note of a finance company are not used for a commercial purpose or if it has a maturity at the time it is offered for discount in excess of that prescribed by the regulation, it may not be discounted. On the other hand, such paper may in any event be utilized as security for an advance under section 10(b) if satisfactory to the Federal Reserve bank.

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S-51
Reg. A-3

Your second question is whether a certificate from a finance company whose paper is offered for discount, which states the use of the proceeds of such paper and which is corroborated by the financial statement of the company, would be sufficient evidence of the use of the proceeds of the paper offered for discount.

When a finance company's note is offered for discount, if a certificate is obtained from the company that the proceeds of the note have been used or are to be used for some commercial purpose which is specifically stated in the certificate, and this is corroborated by the financial statement of the finance company, it would seem that the Federal Reserve bank, unless it has some reason to believe that the statement in the certificate may not be correct, would be justified in regarding the paper as issued for an eligible purpose. With respect to notes of finance companies the character of whose business is well known and whose paper is widely distributed, available information obtained from financial statements or otherwise may be sufficient to satisfy the Reserve bank that the paper offered is issued for an eligible purpose without the necessity of obtaining a certificate of the kind referred to in your letter. As you know, Regulation A provides that "a Federal Reserve bank shall take such steps as may be necessary to satisfy itself as to the eligibility of any paper offered for discount" and, accordingly, the question of what evidence of eligibility should be required is one for the determination of the Federal Reserve bank in the light of the circumstances of each case as it arises.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 22, 1937.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

Dear Sir:

The Board of Governors has amended the terms of waiver applicable to reports of affiliates of State bank members, printed on Form 220b, so as to make it unnecessary for such banks to submit and publish reports where the affiliate relationship is based solely on the fact that a majority of the affiliate's directors, trustees, or other persons exercising similar functions are directors of any one member bank, except where they constitute more than one-fourth of the directors of the member bank. The Board has also amended the terms of the waiver so as to permit any indebtedness of an affiliate to a member bank fully secured by direct obligations of the United States Government or by obligations fully guaranteed by the United States Government to be disregarded in determining whether or not the indebtedness of the affiliate to the member bank is in excess of the limitations prescribed in paragraphs (a) and (b) of the Board's waiver as now printed on Form 220b. A note for $10,000 secured by $5,000 par value of United States Government obligations should be regarded as fully secured to the extent of $5,000 within the meaning of the above exemption. A copy of the amended terms of waiver is inclosed and a supply thereof is being sent you under separate cover.

The amended terms of waiver will become effective as of the date of the next call made upon State bank members for condition reports pursuant to the provisions of Section 9 of the Federal Reserve Act. It is suggested, therefore, that each State bank member be furnished with a copy of the new terms of waiver at the time that the next call for condition reports is made. The amendments have been underscored in the complete copy of the new terms of waiver, a supply of which is being sent to you.

The Board has been advised that the Comptroller's office has decided to adopt corresponding terms of waiver governing reports of affiliates of National banks, effective as of the next call made upon National banks for condition reports.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

S-52-a
Sec. 21 FRA-4

WAIVER REQUIREMENT FOR REPORTS OF AFFILIATES OF STATE BANK MEMBERS OF THE FEDERAL RESERVE SYSTEM

(Adopted by the Board of Governors of the Federal Reserve System on December 21, 1937, effective as of the date of the next call for condition reports submitted by State bank members pursuant to the provisions of Section 9 of the Federal Reserve Act. These terms of waiver supersede those printed on "Form 220b, Revised February 1936".)

Pursuant to section 21 of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System waives the requirement for the submission of reports of affiliates (other than of holding company affiliates, as defined in section 2(c) of the Banking Act of 1933, as amended) of State bank members of the Federal Reserve System, except:

(a) When indebtedness, if any, of the affiliate to the member bank had been carried for more than 6 months in the 12 months preceding the report date as an asset on the bank's books at a value in excess of $5,000 or 1 percent of the bank's capital and surplus, whichever is the smaller, regardless of whether the affiliate is so indebted on the report date: <u>Provided, that any indebtedness of the affiliate to the member bank fully secured by direct obligations of the United States Government or by obligations fully guaranteed by the United States Government may be disregarded in determining whether or not the indebtedness of the affiliate is in excess of the limitations prescribed herein</u>.

(b) When, on the report date, the affiliate is indebted to the member bank, or the member bank owns obligations of, or stock or other evidences of ownership in, the affiliate, and the aggregate amount of such indebtedness, obligations, stock, or other evidences of ownership is carried as an asset on the bank's books at a value in excess of $5,000 or 1 percent of the member bank's capital and surplus, whichever is the smaller: <u>Provided, that any indebtedness of the affiliate to the member bank fully secured by direct obligations of the United States Government or by obligations fully guaranteed by the United States Government may be disregarded in determining whether or not the indebtedness of the affiliate is in excess of the limitations prescribed herein</u>.

The Board of Governors of the Federal Reserve System also waives the requirement for the submission of reports of affiliates in all cases (1) where the affiliate relationship is based solely on ownership or control of any voting shares of the affiliate by a member bank as executor, administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank, <u>and (2) where the affiliate relationship is based solely on the fact that a majority of the affiliate's directors, trustees, or other persons exercising similar functions are directors of any one member bank, except where they constitute more than one-fourth of the directors of the member bank</u>.

The above provisions with respect to the waiving of the requirements for submission of reports of affiliates are subject to change whenever deemed advisable by the Board of Governors of the Federal Reserve System in order to require the submission of reports which are necessary to disclose fully relations between member banks and their affiliates and the effect thereof upon the affairs of member banks.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1937.

SUBJECT: Amortization of Premiums on Bonds with Call Prices under Comptroller's Regulations Regarding Investment Securities.

Dear Sir:

Inclosed for your information are excerpts from a letter dated December 15, 1937, from Mr. Paulger, Chief of the Board's Division of Examinations, to the Vice President in charge of the Examination Department of one of the Federal Reserve banks regarding the amortization of premiums on bonds with call prices under the provisions of the regulations of the Comptroller of the Currency governing the purchase of investment securities.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

S-53-a
Sec. 5136 R.S.-10

December 15, 1937.

Mr. __________, Vice President,
Federal Reserve Bank of ______,
_______________, _____________.

Dear Mr. ________:

Reference is made to the report of examination of ___________, ________, ________, as of September 13, 1937, and your letter of December 2 with respect thereto.

* * * * * * * * * *

It is noted, also, that a further violation of section 5136 was reported by reason of three issues carried by the bank at amounts in excess of the call price of the bonds. Included in the list, however, was one issue with respect to which the following comment was made: "Not callable until 1947. Being amortized to call price by first call date." It appears that the examiner may have been under some misapprehension with respect to the provisions of the regulations of the Comptroller of the Currency regarding premium and call price. It is understood that the requirement of the regulations that "the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security" refers to the price at which the security may then be redeemed and not to some future call price. Paragraph No. 5 in Bulletin No. 1, dated June 9, 1936, of the Comptroller of the Currency, which reads as follows, bears specifically on this point.

> "Amortization of premiums on 'investment securities' purchased by bank. -- Some banks have misunderstood the amortization requirements of the regulations as respects securities purchased at a price exceeding par. It should be made clear that the premium need only be gradually amortized at regular intervals over the life of a security to the end that at its maturity the security will not be carried at an amount in excess of par. If the security is callable at a given price above par, the rate of amortization will have to be such as to have gradually extinguished the premium down to call price by the call date, regardless of whether the security is in fact called on that date. Thereafter, if not called, amortization shall continue from that point to maturity on the same basis as though the security had been purchased on the call date at the call price."

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It is suggested that this matter be called to the attention of the examiners as it has been noted that in some other reports of examination bonds carried in excess of the call price have been listed as violations, although the bonds were not callable until some time in the future. You will appreciate, I am sure, that these comments with respect to premiums are not intended to suggest that in some cases the elimination of premiums, even if not required by law, may not be altogether desirable and in accordance with sound banking practice. These comments are intended only to guard against the treating of matters as violations of the law and the Comptroller's regulations when in fact they are not violations.

* * * * * * * * * * * *

Very truly yours,

(Signed) Leo H. Paulger

Leo H. Paulger,
Chief, Division of Examinations.

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Federal Reserve Bank of St. Louis

S-54
Reg. U-24

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

December 18, 1937.

Mr. __________, First Vice President,
Federal Reserve Bank of ___________,
_____________, _____________.

Dear Mr. __________:

Reference is made to your letter of November 19 regarding the question whether a loan is subject to Regulation U if the loan was made to purchase a stock and the stock was registered on a national securities exchange at the time the loan was made but has since become unregistered.

As you point out in your letter, the ruling contained in the Board's letter (S-51, Reg. U-20) of September 2, 1937 and published at page 995 of the October, 1937 Federal Reserve Bulletin dealt with the converse situation in which a stock had become registered after the loan was made. That ruling stated that the question of whether or not the loan there in question was made for the purpose of purchasing or carrying a stock "registered on a national securities exchange" should be determined on the basis of the present status of the stock.

The Board agrees with your view that, at least under the existing regulation, the question now presented should also be determined on the basis of the present status of the stock and that, accordingly, in the circumstances described, the loan would not be subject to the regulation.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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Federal Reserve Bank of St. Louis

S-55
Reg. T-63

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

TELEGRAM December 28, 1937.

YOUNG BOSTON	LEACH RICHMOND	PEYTON MINNEAPOLIS
HARRISON NEW YORK	NEWTON ATLANTA	HAMILTON KANSAS CITY
SINCLAIR PHILADELPHIA	SCHALLER CHICAGO	McKINNEY DALLAS
FLEMING CLEVELAND	MARTIN ST. LOUIS	DAY SAN FRANCISCO

Section 4(b) of Regulation T, as revised effective January 1, 1938, provides that in a special omnibus account carried by a member of a national securities exchange for a customer, transactions may be effected in reliance upon a signed statement which the member has accepted from the customer in good faith, and a duplicate original of which has been filed by the member with the secretary of a national securities exchange of which he is a member, that the customer is a broker or dealer who is subject to the provisions of Regulation T or has places of business only in foreign countries. Section 4(b) also provides that in a special omnibus account no security shall have loan value and no short sales of securities shall be carried except securities and short sales as to which the member shall have accepted in good faith a signed statement of the customer that he is in turn carrying such securities and such short sales for the account of his customers other than his partners.

In order to facilitate the transition from the old regulation to the revised regulation, the Board hereby prescribes that a member who on December 31, 1937 was carrying for a customer an account that complied with the provisions of section 3(b) of Regulation T as then in effect, may, until March 1, 1938 or such earlier time as he may be able to obtain from the customer the statements referred to above, use in lieu of such statements of the customer, the member's own signed statement that he believes the facts to be as they are required to be stated by the customer in such statements under the revised regulation.

It will be appreciated if you will advise any national securities exchanges in your District of the contents of this telegram.

(Signed) S. R. Carpenter

CARPENTER

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Federal Reserve Bank of St. Louis

S-56

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1937.

SUBJECT: Meaning of Code Words
MARSOON and MARSOPE

Dear Sir:

There is inclosed herewith for your information a copy of a reply which the Board has made to a letter recently received from one of the Federal Reserve banks with regard to the meaning of the code words MARSOON and MARSOPE.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Federal Reserve Bank of St. Louis

December 30, 1937.

Mr. ________________, President,
Federal Reserve Bank of _________,
__________________, ______________.

Dear Mr. ______________:

This refers to your letter of December 13, 1937, with regard to the scope of the code words MARSOON and MARSOPE. You suggest that, if it is contemplated that action be taken every fourteen days with respect to rates on advances under section 10 (b), section 13b and the last paragraph of section 13 of the Federal Reserve Act, as well as on rates applicable to discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, the definitions of these code words might be broadened so as to include specifically a reference to rates of interest.

It has been the Board's understanding that each Federal Reserve bank in establishing rates of discount every fourteen days pursuant to the provisions of section 14 (d) of the Federal Reserve Act has included in the rates so established rates applicable to transactions under all sections of the law included in your suggestion and that each Federal Reserve bank has used the word MARSOON in this sense in advising the Board of establishment without change of rates in existing schedules. In this connection, it will be noted that the form of rate schedule which was inclosed with the Board's letter of September 3, 1937, S-29, includes rates applicable to rediscounts for and advances to member banks under sections 13 and 13a, advances to member banks under section 10 (b), advances to individuals, partnerships and corporations secured by direct obligations of the United States under the last paragraph of section 13, and industrial advances and commitments under section 13b.

The Board's records indicate that in practically every case advances made by the Federal Reserve banks under section 10 (b) of the Federal Reserve Act have been on a discount basis. In other words, in transactions under this section interest is deducted in advance by the reserve bank just as in connection with discounts for and advances to member banks under sections 13 and 13a. It also appears that all advances by Federal Reserve banks under the last paragraph of section 13 of the Federal Reserve Act have been on a discount basis and, while this has not been generally true with respect to industrial loans under section 13b, even under this section some transactions have been handled on a discount basis.

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In view of these circumstances, it is felt that there is no present necessity for a change in the definitions of the two code words mentioned.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

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S-57
Reg. T-64

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

TELEGRAM

December 28, 1937.

(Addressed to a Federal Reserve bank)

Retel December 23 If customer having special omnibus account under section 4(b) of revised Regulation T is incorporated securities firm, securities and short sales of officers, directors or stockholders thereof need not be denied loan value or excluded from the account as those of a "partner".

(Signed) S. R. Carpenter

CARPENTER

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Federal Reserve Bank of St. Louis

S-58
Reg. L-6

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

December 28, 1937.

Mr. ________, President,
Federal Reserve Bank of ______,
______, ________________.

Dear Mr. _______:

Consideration has been given to Mr. ______'s letter of November 29, 1937 and the inclosed memorandum opinion of General Counsel to your bank and the copy of the letter from Mr. (A), vice president of The National _______ Bank of ______, regarding the applicability of the Clayton Act to Mr. (B). The question presented is whether Mr. (B) may continue to serve as a director of the national bank and as a director of the ______ Safe Deposit and Trust Company until February 1, 1939, in view of the provision in the Clayton Act that: "Until February 1, 1939, nothing in this section shall prohibit any director * * who is lawfully serving * * on the date of the enactment of the Banking Act of 1935, from continuing such service."

From the information before the Board it appears that Mr. (B) was "lawfully serving" as a director of both the above institutions on the date of the enactment of the Banking Act of 1935, under a permit issued to him by the Board. However, shortly thereafter he resigned from both institutions because he intended to seek election as Governor of (name of State), and a junior officer was elected to take his place temporarily on the board of the national bank. He was not elected Governor, and in May 1937, a year and a half after he had resigned, he was reelected a director of both institutions.

The Board is of the opinion that the provision quoted above is not applicable in such a case. In construing this provision it is important to remember that the Banking Act of 1935 amended the Clayton Act so as to prohibit a large number of relationships which had not previously been prohibited. The obvious purpose of the provision was to prevent wholesale resignations on the effective date of the amendments and to give the banks involved a reasonable time within which to make the required readjustments. Since the only purpose of the provision was to avoid the hardship which might result from a resignation, it cannot be construed as authorizing the resumption of a relationship which has already been terminated.

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This conclusion is supported by the language of the provision, which does not say that such relationships shall be lawful until February 1, 1939, but provides merely that the prohibitions of the amended statute shall not prevent a director from "continuing" the relationships until that date. This language implies, at least, that the service must be continuous.

Mr. (A) refers to a ruling made by the Board in 1925 which held that the resignation of a director serving under a Clayton Act permit was tantamount to the abandonment of his permit, but argues that in the circumstances of this case there was no abandonment. However, this question is no longer involved because the Banking Act of 1935 eliminated from the Clayton Act the provision authorizing the issuance of permits by the Board, and the permit thereupon ceased to have any effect, except as it affected the question whether he was "lawfully serving" on the date of the enactment of the Banking Act of 1935 within the meaning of the provision discussed above.

The Board is not unmindful of Mr. (A)'s suggestion that his bank will lose a valuable director if Mr. (B) is not permitted to serve the two institutions, but as pointed out above the matter is governed by statute and the Board no longer has power to grant permits in such cases.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

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Federal Reserve Bank of St. Louis

S-59
Reg. O-28

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

December 30, 1937.

Mr. _______________, Vice President,
Federal Reserve Bank of ___________,
____________________, __________________.

Dear Mr. ________:

This refers to your letter of December 6, 1937, and its inclosures, stating that there are several nonmember banks in (names of two States) which have indicated their desire for membership in the System but which have deferred filing formal application due to the fact that the president or chairman of the board of directors is indebted to the bank in excess of $2,500. You state that in your opinion such banks will not file an application for membership unless such inactive officers are permitted to borrow on the same basis as other directors and suggest that the Board reconsider the matter of excluding inactive officers from the provisions of Regulation O in the light of recent State legislation.

As you know, the Board gave careful consideration to this question at the time Regulation O was promulgated, and on several occasions since then the Board has reconsidered this particular matter in the light of other suggestions. It has been the Board's position, however, that it would not be justified in excluding inactive officers from the provisions of Regulation O for the following reasons:

(1) It appears that the principal purpose underlying the enactment of section 22(g) of the Federal Reserve Act was to prevent the exercise of undue influence by executive officers of member banks in obtaining credit from the banks they serve and it is the Board's view that the exercise of such undue influence may be present in the case of inactive or honorary officers;

(2) Congress did not make a distinction in section 22(g) between active and inactive officers and the legislative history of the section indicates that the chairman of the board of directors and the president of a member bank should appropriately be regarded as executive officers for the purposes of the law in question even though they may be inactive;

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(3) From the standpoint of the public, persons having the usual titles of executive officers in member banks are considered as executive officers whether or not they are active, and the Board does not feel that it should give encouragement to the employment in an inactive capacity of persons who are given the titles of executive officers and held out to the public as such.

It is noted that the banking laws of (names of two States), referred to in your letter, are applicable only to active executive officers and in this respect such laws differ from section 22(g) wherein no such distinction is made.

The Board appreciates your calling this matter again to its attention, particularly in the light of the circumstances stated in your letter, but, after careful reconsideration of the matter, feels that for the reasons stated above it would not be justified in excluding inactive officers from the provisions of Regulation O.

For your information in discussions with nonmember State banks now or hereafter seeking admission to the Federal Reserve System, the Board considers that loans in any amount by such banks to their executive officers made prior to admission to membership or even prior to June 16, 1933, are not prohibited by section 22(g) or the provisions of the Board's Regulation O from being renewed or extended after membership or after June 16, 1938. However, an executive officer of such bank could not obtain additional loans from his bank after it is admitted to membership if by so doing his total indebtedness to the bank would be increased to any amount in excess of $2,500.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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Federal Reserve Bank of St. Louis