

1/29/35

TITLE II. AMENDMENTS TO THE FEDERAL RESERVE ACT.

Sec. 201. (a) Section 4 of the Federal Reserve Act, as amended, is further amended by striking out the paragraph which commences with the words, "Class C directors shall be appointed by the Federal Reserve Board" and the next succeeding paragraph, and inserting in lieu thereof the following:

"Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the districts for which they are appointed, except that this requirement shall not apply to the Governor and Vice Governor of the bank. Each Class C director shall hold office for a term of three years except that the Governor's term as a Class C director shall expire when he ceases to be Governor of the bank and, if the Vice Governor be designated as a Class C director, his term as a Class C director shall expire when he ceases to be Vice Governor. One of the directors of Class C shall be appointed by the Federal Reserve Board as Deputy Chairman to exercise the powers of the Chairman of the board when necessary. In the case of the absence of the Chairman and Deputy Chairman, the third Class C director shall preside at meetings of the board.

"Effective ninety days after the enactment of the Act containing this amendment, the offices of Governor and Chairman of the Board of Directors of each Federal Reserve bank shall be combined. The Governor shall be the chief executive officer of the bank and shall be appointed annually by the board of directors subject to the approval of the Federal Reserve Board. He shall not take office until approved by the Federal Reserve Board and thereupon he shall be appointed by the Federal Reserve Board as one of the Class C directors of the bank. He shall be ex officio Chairman of the Board of Directors and Chairman of the Executive Committee; and all other officers and employees of the bank shall be directly responsible to him. For each Federal Reserve bank there shall be appointed annually in the same manner as the Governor a Vice Governor, who shall, in the absence or disability of the Governor or during a vacancy in the office of Governor, serve as the chief executive officer of the bank and act as Chairman of the Executive Committee of the bank. He may be appointed by the Federal Reserve Board as a Class C director of the bank and in such case may be appointed as Deputy Chairman of the Board of Directors. Whenever a vacancy shall occur in the office of the Governor or Vice Governor of a Federal Reserve bank, it shall be filled in the manner provided for original appointments;

and the person so appointed shall hold office until the expiration of the term of his predecessor.

"Effective ninety days after the enactment of the Act containing this amendment, any Federal Reserve Agent who shall not have been appointed Governor of the bank shall cease to be a Class C director and Chairman of the Board of Directors. All duties prescribed by law for the Federal Reserve Agent shall be performed by such person as the Federal Reserve Board shall designate.

"No member of the Board of Directors of a Federal Reserve bank, other than the Governor and Vice Governor, shall serve as a director for more than two consecutive terms of three years each, but this shall not prevent the present incumbents from serving out the remainders of their present terms."

(b) The last paragraph of such section 4 is amended by striking out the words "Thereafter every director of a Federal Reserve bank chosen as hereinbefore provided shall hold office for a term of three years" and substituting the words "Thereafter each director of Class A and each director of Class B chosen as hereinbefore provided shall hold office for a term of three years."

Sec. 202. Section 9 of the Federal Reserve Act, as amended, is amended by changing the period at the end of the tenth paragraph thereof to a colon and adding the following:

"Provided, further, That, upon application to the Federal Reserve Board at any time prior to July 1, 1937, by any nonmember bank which at the time of such application has been admitted to the benefits of insurance by the Federal Deposit Insurance Corporation under section 12B of this Act, the Federal Reserve Board, in its discretion, in order to facilitate the admission of such bank to membership in the Federal Reserve System, may waive in whole or in part the requirements of this section relating to the amount of capital required of such bank. Such bank shall comply with such requirements within such period or periods after admission as in the Board's judgment shall be reasonable in view of all the circumstances."

Sec. 203. Section 10 of the Federal Reserve Act, as amended, is further amended in the following respects:

- (1) Strike out the second sentence of the first paragraph and substitute the following:

"In selecting the six appointive members of the Federal Reserve Board the President shall choose persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies. Not more than one of the appointive members shall be selected from

any one Federal Reserve district, except that this limitation shall not apply to the selection of the Governor."

(2) Such first paragraph is further amended by adding at the end thereof the following:

"The appointive members of the Federal Reserve Board appointed after July 1, 1935, shall each receive a salary at the same rate as that of an associate justice of the Supreme Court of the United States, together with actual necessary travelling expenses. Each appointive member of the Federal Reserve Board heretofore appointed may retire from active service upon reaching the age of 70 or at any time thereafter, and all members hereafter appointed shall retire upon reaching the age of 70. Each member of the Board so retired from active service who shall have served for at least five years shall receive, during the remainder of his life, retirement pay in an amount equal to the annual salary paid to appointive members prior to the enactment of the act containing this amendment: Provided, That, if he shall not have served for as much as 12 years, his retirement pay shall be at the rate of one-twelfth of such annual salary for each year and for any fraction of an additional year of such service: Provided, further, That any member whose term expires between the ages

of 65 and 70 who is not reappointed shall receive retirement pay upon the same basis as if he had been retired under the provisions of this paragraph. The funds necessary for such retirement pay shall be provided by the Federal Reserve banks in such manner as the Federal Reserve Board shall prescribe."

(2) The second paragraph is amended by striking out the fourth sentence thereof and inserting in lieu thereof the following:

"Of the six appointive members of the Board one shall be designated by the President as Governor and one as Vice Governor of the Federal Reserve Board, to serve as such until the further order of the President, and the provisions of the next preceding sentence of this paragraph shall not apply to the member designated as Governor. The term of office of the member designated as Governor shall be the period during which he shall continue as Governor and, upon the termination of his designation as Governor, he shall be deemed to have served the full term for which he was appointed."

Sec. 204. Subsection (i). Section 11 of the Federal Reserve Act, as amended, is amended by adding the following at the end thereof:

"The Board may assign to designated members of the Board or officers or representatives of the Board, under such rules and regulations, the performance of duties, functions or

services so specified, but any such assignment shall not include the determination of any national or system policy or any power to make rules and regulations or any power which under the terms of this Act is required to be exercised by a specified number of members of the Board."

Sec. 205. Effective ninety days after the enactment of this Act, section 12A of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 12A. There is hereby created a Federal Open Market Committee (hereinafter referred to as the Committee), which shall consist of the Governor of the Federal Reserve Board, who shall be Chairman of the Committee, two members of the Federal Reserve Board, selected by the Board, and two Governors of the Federal Reserve banks, selected by the Governors of the Federal Reserve banks in accordance with procedure prescribed by regulations of the Federal Reserve Board. The terms of the members of the Committee, other than the Governor of the Federal Reserve Board, shall expire at the end of each calendar year. Whenever a vacancy shall occur a successor shall be selected in the same manner as his predecessor was selected. Meetings of the Committee shall be held from time to time upon the call of the Governor, at the request of the Board or of any two members of the Committee, or upon his own initiative.

"The Committee from time to time shall consider, adopt and transmit to the Federal Reserve Board resolutions setting

forth policies which in the judgment of the Committee should be followed with respect to open market operations and discount rates of the Federal Reserve banks, and the Board shall give prompt consideration thereto. Upon notification of the Board's approval of any such resolution, the Federal Reserve banks shall conform their open market operations to the provisions thereof, and the Committee shall aid in the execution of such policies and/or perform such other duties relating thereto as the Board may prescribe. All open market operations of the Federal Reserve banks shall be subject to regulations, limitations and restrictions prescribed by the Federal Reserve Board, which shall not be inconsistent with resolutions approved by the Board as hereinbefore provided."

Sec. 206. Section 13 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:

"Upon the indorsement of any member bank, which shall be deemed a waiver of demand, notice and protest as to its own indorsement exclusively, and subject to such regulations as to maturities and other matters as the Federal Reserve Board may prescribe, any Federal Reserve bank may discount any commercial, agricultural or industrial paper and may make advances to any such member bank on its promissory notes secured by any sound assets of such member bank."

Sec. 207. Subsection (b) of section 14 of the Federal Reserve Act, as amended, is further amended by changing the semicolon at the end thereof to a colon and adding the following:

"Provided, That any bonds, notes or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities."

Sec. 208. Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) Strike out the first 10 paragraphs and substitute therefor the following:

"Sec. 16. Each Federal Reserve bank may issue Federal Reserve notes, which shall be obligations of the United States, secured by a first and paramount lien on all of the assets of such bank. Federal Reserve notes shall be issued and retired under such rules and regulations as the Federal Reserve Board may prescribe and shall be legal tender for all purposes.

"Every Federal Reserve bank shall maintain reserves in lawful money (other than Federal Reserve notes or Federal Reserve bank notes) of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual

circulation. Each Federal Reserve note shall bear upon its face a distinctive letter, which shall be assigned by the Federal Reserve Board to each Federal Reserve bank, and also a serial number.

"When received by the Treasurer of the United States from a source other than a Federal Reserve bank, Federal Reserve notes unfit for further use shall be canceled and retired; and, upon receipt of advice of such cancellation and retirement, the issuing Federal Reserve bank shall reimburse the Treasurer of the United States for the notes so canceled and retired. When received by a Federal Reserve bank, Federal Reserve notes unfit for further use shall be canceled and forwarded to the Treasurer of the United States for retirement; and, if issued by another Federal Reserve bank, such issuing bank shall reimburse the Federal Reserve bank which canceled such notes and forwarded them to the Treasurer of the United States.

"In order to furnish suitable notes for circulation as Federal Reserve notes, the Secretary of the Treasury shall cause plates and dies to be engraved in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100,

\$500, \$1,000, \$5,000, and \$10,000 as may be required to supply the Federal Reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury and shall bear the distinctive numbers of the several Federal Reserve banks through which they are issued. When such notes have been prepared, they shall be held in the Treasury subject to the order of the Federal Reserve Board for delivery to the Federal Reserve banks."

(2) The sixteenth paragraph is amended by striking out the words "or Federal Reserve Agent" where they occur in three different places and also the words "or his" and the words "at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve Agent."

Sec. 209. The sixth paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

"Notwithstanding the other provisions of this section, the Federal Reserve Board, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in any or all Federal Reserve districts and/or any or all of the three classes of cities referred to above."

Sec. 210. The first paragraph of section 24 of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 24. Any national banking association may make loans secured by first liens upon improved real estate, including improved farm land and improved business and industrial properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other instrument upon real estate when the entire amount of such obligation or obligations is made or is sold to such association: Provided, That nothing contained in this section shall prevent any national banking association from acquiring, as additional security for loans previously made in good faith, second or subsequent liens on real estate or shares or participations in such liens. The amount of any such loan shall not exceed 60 per centum of the actual value of the real estate offered for security, but no such loan upon such security shall be made for a longer term than three years: Provided, That loans may be made in amounts not exceeding 75 per cent of the actual value of the real estate offered for security, if they are required to be completely amortized within periods not exceeding 20 years by means of substantially equal monthly, quarterly, semiannual or annual payments on principal with interest added or on principal and interest combined:

Provided, further, That in the case of loans secured by real estate which are insured under the provisions of title II of the National Housing Act, such restrictions as to the amount of the loan in relation to the actual value of the real estate and as to the five-year limit on the terms of such loans shall not apply. Any such bank may make such loans in an aggregate sum equal to the amount of the capital stock of such association paid in and unimpaired plus its unimpaired surplus fund, or equal to 60 per centum of the amount of its time and savings deposits, whichever is the greater: Provided, That, in computing such aggregate sum there shall be included all such loans on which the bank is liable as indorser, guarantor or otherwise and the book value of all real estate owned by the bank directly or indirectly except its banking premises: Provided, further, That all such loans shall be subject to the general limitations contained in section 5200 of the Revised Statutes of the United States. Such banks may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located. State banks and trust companies which are members of the Federal Reserve System shall not make loans secured by real estate except to the same extent and under the same terms and conditions as national banking associations are permitted to do so."