

A meeting of the Federal Reserve Board was held in the office of the Governor on Monday, October 31, 1927 at 2:30 p.m.

PRESENT: Governor Young
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. Eddy, Secretary
Mr. McClelland, Asst. Secretary

The minutes of the meeting of the Federal Reserve Board held on October 24th were read and approved.

The minutes of the meeting of the Executive Committee held on October 27th were read and, upon motion, the actions recorded therein were ratified.

Letter dated October 27th from the Assistant Secretary of the Federal Reserve Bank of New York, telegram dated October 28th from the Chairman of the Federal Reserve Bank of Chicago, and telegram dated October 27th from the Chairman of the Federal Reserve Bank of Kansas City, all advising that the Boards of Directors of the banks at meetings on those dates made no changes in the banks' existing schedules of rates of discount and purchase.

Noted, with approval.

Telegram dated October 31st from the Secretary of the Federal Reserve Bank of Minneapolis, advising that the board of directors at their meeting on that date made no change in the bank's existing schedule of rates of discount and purchase, except in the rate for purchases of acceptances maturing within from 16 to 45 days, which was fixed at 3 per cent.

10/31/27

-2-

Noted, with approval.

Letter dated October 27th from the Secretary of the Federal Reserve Bank of Atlanta, advising that the board of directors of the bank has voted to hold its next regular meeting at the New Orleans Branch on November 11th.

Noted, without objection.

Letter dated October 26th from the Chairman of the Federal Reserve Bank of Cleveland, submitting an amendment to the By-laws of that bank, providing for the election of officers and the fixing of their salaries at the first meeting of the board of directors after January 1st of each year adopted in accordance with the request contained in the Board's letter of August 16, 1927 (X-4928).

Noted, with approval.

Matters approved on initials on October 28th, namely, letters dated October 27th from the Acting Comptroller of the Currency, recommending approval of salaries of \$3,000 and \$3,600 per annum for National Bank Examiners Walter J. Penningroth and Frank L. King, assigned to the Ninth and Seventh Federal Reserve Districts, respectively.

Formally approved.

Report of Committee on Salaries and Expenditures on letter dated October 26th from the Chairman of the Federal Reserve Bank of Boston, advising of the action of the board of directors of that bank in voting to extend until the next meeting of the board leaves of absence on account of illness previously granted Mr. Joseph Buckley, Miss Dorothy M. Roberts and Mrs. Ella B. Wheeler, Mr. Buckley to receive half pay,

10/31/27

-3-

and Miss Roberts and Mrs. Wheeler full pay; the Board's Committee recommending approval of the salary payments involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated October 28th from the Chairman of the Federal Reserve Bank of Philadelphia, advising of the action of the Executive Committee of that bank in voting to extend for a period of sixty days from October 31st, with half pay, leave of absence on account of illness previously granted Miss Mary J. Bozarth, an employee of the bank; the Board's Committee recommending approval of the salary payment involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated October 28th from the Federal Reserve Agent at Kansas City, advising of the action of the Executive Committee of that bank in voting to extend for a period of not to exceed three months from October 31st, with half pay, leave of absence on account of illness previously granted Mr. W. H. Livingston, an employee of the Fiscal Agency Department; the Board's Committee recommending approval of the salary payment involved.

Approved.

Report of Committee on Examinations on letter dated October 25th from the Federal Reserve Agent at Cleveland, recommending approval of applications of the Union Trust Company of Cleveland for permission to establish five local branches at locations listed in his letter; the Board's Committee recommending approval.

Approved.

10/31/27

-4-

Report of Executive Committee on letter dated October 18th from the Assistant Federal Reserve Agent at Minneapolis, transmitting and recommending approval of an application of the Midway National Bank of St. Paul, Minn., an outlying institution, for a reduction in its reserve requirements from 10% to 7% of demand deposits; the Board's Committee also recommending approval.

Approved.

Memorandum from Counsel dated October 26th, with reference to the Clayton Act application of Mr. Joseph C. Specht, involving the National City Bank and the German American Savings Bank, both of Los Angeles, Calif., which was temporarily refused by the Board on July 27, 1927, with the usual opportunity to the applicant to present additional information in support of his application; Counsel stating that the question as to whether the two banks are in substantial competition is a close one, but that in view of the Federal Reserve Agent's recommendation and the fact that the National City Bank has large amounts of savings deposits and is located just across the street from the German American Savings Bank, which it appears is engaged exclusively in a savings bank business, he is of the opinion that the two banks are in substantial competition for savings deposits and can not recommend approval of the application.

After discussion, action on the above application was deferred in order to enable the Law Committee to confer with the Federal Reserve Agent at San Francisco, who is in Washington attending the Federal Reserve Agents' Conference.

Memorandum from Counsel dated October 17th, submitting, in accordance with the request made by the Board at its meeting on October 13th, an amendment to Section IX of the Board's Regulation K, relating to

investments by Edge corporations in stock of other corporations, the amended section reading as follows:

"SECTION IX. INVESTMENTS IN THE STOCK
OF OTHER CORPORATIONS.

It is contemplated by the law that a Corporation shall conduct its business abroad either directly or indirectly through the ownership or control of corporations, and accordingly the Federal Reserve Board hereby consents that a Corporation may invest in the stock, or certificates of ownership, of any other corporation organized -

- (a) Under the provisions of Section 25 (a) of the Federal Reserve Act;
- (b) Under the laws of any foreign country or a colony or dependency thereof;
- (c) Under the laws of any State, dependency, or insular possession of the United States;

provided, first, that such other corporation is not engaged in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; and second, that it is not transacting any business in the United States except such as is incidental to its international or foreign business.

Except with the approval of the Federal Reserve Board, no Corporation shall invest an amount in excess of 15 per cent of its capital and surplus in the stock of any corporation engaged in the business of banking, or an amount in excess of 10 per cent of its capital and surplus in the stock of any other kind of corporation.

No Corporation shall purchase any stock in any other corporation organized under the terms of Section 25 (a) or under the laws of any State, which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing Corporation. This restriction, however, does not apply to corporations organized under foreign laws."

Upon motion, it was voted that Section IX of Regulation K be adopted in the amended form quoted above.

On this motion, Mr. Cunningham requested to be recorded as voting "no".

Letter dated October 18th from the Federal Reserve Agent at Atlanta, with reference to efforts being made to rehabilitate The Citizens Bank of Lake Wales, Fla. or to consolidate it with another institution in Lake Wales, and recommending that he be authorized to withhold negotiations with the Citizens Bank directed by the Board in a letter to him approved at the meeting on July 28, 1927, pending the result of certain other negotiations now under way.

10/31/27

-6-

Upon motion, the recommendation of the Federal Reserve Agent was approved.

Letter dated October 21st from the Federal Reserve Agent at St. Louis, transmitting letter addressed to him by the President of the Fidelity Bank and Trust Company of Memphis, Tenn., advising of plans under way for the nationalization of that bank involving a reduction in its capital stock from \$1,000,000 to \$500,000. Mr. James, who visited Memphis a day or two ago in connection with the matter, reported to the Board the status of the plans, and the letter from the Federal Reserve Agent was noted.

The Governor then submitted application of The Berlin National Bank of Berlin, N. H. for permission to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver and committee of estates of lunatics. He also submitted a memorandum from Counsel, approved by the Law Committee, advising that under New Hampshire law the bank can not lawfully be permitted to exercise the powers of administrator, guardian of estates and committee of estates of lunatics, but that the Board may, if it so desires, authorize The Berlin National Bank to exercise the five other powers applied for.

Upon motion, it was voted to approve the application of The Berlin National Bank for permission to act as trustee, executor, registrar of stocks and bonds, assignee and receiver.

The Governor then submitted a letter dated October 22nd from the Chairman of the Federal Reserve Bank of New York, advising of the expiration on December 31st, next, of his appointment as a director of the Bank for Industrial German Debentures, which position he has held in connection with his service as the American member of the General Council

10/31/27

-7-

of the Reichsbank; the Chairman stating that it is desired that he continue to serve as director of the industrial bank and requesting an expression of the views of the Board as to his accepting reappointment.

Discussion thereupon ensued, during which it was the consensus of opinion that inasmuch as the Board at the time of Mr. McGarrah's appointment as Chairman and Federal Reserve Agent at New York took the position that it would not object to his serving out his present term as American member of the General Council of the Reichsbank, which runs until October 1, 1928, and inasmuch as it is understood that his appointment as American member of the Reichsbank Council carries appointment as American representative on the directorate of the Bank for Industrial German Debentures, the Board would not interpose objection to his accepting reappointment as a director of the industrial bank to serve until the expiration of his term as a member of the General Council of the Reichsbank.

Upon motion, the Governor was requested to prepare for submission at the next meeting of the Board a letter to Mr. McGarrah along the lines of the discussion.

The Governor then referred to the report recently submitted by the Chairman of the Sub-committee of the General Acceptance Committee, recommending certain changes in rulings of the Board relating to the handling of acceptances by Federal Reserve banks and member banks. He stated that without objection on the part of members of the Board, he would submit the report to the Board's Counsel for an opinion and then refer the recommendations of the Sub-committee, together with Counsel's memorandum thereon, to the forthcoming Conference of Governors.

The Governor then submitted a letter addressed to him by Kiplinger, Babson and Jacobs of Washington, submitting a business letter addressed to the clients of that agency on October 24th. The Governor called attention particularly to a reference in the letter to the question of mortgage loans

10/31/27

-8-

by national banks under the McFadden Act; the letter stating that instead of selling such mortgages some banks are arranging to sell participating certificates in them, while others are organizing affiliated mortgage companies for the purpose of issuing their own obligations secured by mortgages.

After discussion, it was suggested to the Governor that the above letter be called to the attention of the Comptroller of the Currency with the request that he furnish the Board with an expression of his views regarding the matter referred to by the Governor.

The Governor then presented a memorandum dated October 28th from the Board's Counsel, with reference to letter dated October 22nd from the President of the State-Planters Bank and Trust Company, Richmond, Va., inquiring whether it would be considered by the Board as a violation of any provision of the Federal Reserve Act or any regulation of the Board if that institution should purchase the entire capital stock (except directors' qualifying shares) of a new bank to be organized at Hopewell, Va.

Discussion then ensued as to the authority of the bank to proceed with the transaction referred to in view of the provisions of the Federal Reserve Act, the regulations of the Board and the conditions of membership imposed upon the bank at the time of its admission to the System.

Following the discussion, it was moved that a letter be prepared to the President of the State-Planters Bank and Trust Company along the lines of the opinion submitted by Counsel.

It was also moved, as a substitute for the above motion, that the matter be referred back to Counsel to consider the opinion of some members of the Board that the proposed transaction runs counter to the provision of the Federal Reserve Act which reads "no such state

10/31/27

-9-

"bank may retain or acquire stock in a Federal Reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this act beyond the limits of the city, town or village in which the parent bank is situated", and that he be directed to advise the Board if in his opinion the proposed transaction is contrary to the above quoted provision of the Act, whether as a matter of law he believes the Board has any authority to object to the proposed transaction.

After full discussion, the above substitute motion was put by the Chair and carried.

Mr. Miller then referred to the motions submitted by Mr. James at the meeting on October 12th which, if adopted, would provide for the presence of an official stenographer for the purpose of making a verbatim record of proceedings at meetings with the Board of the Federal Advisory Council or the Open Market Investment Committee and/or any member of that Committee. He stated that he favored the idea and suggested the advisability of early action on these motions in view of the fact that a meeting of the Open Market Investment Committee will probably be held in conjunction with the Governors' Conference which convenes on November 2nd.

The Governor called attention to the fact that action on Mr. James' motions had been deferred by the Board until a meeting to be arranged by the Governor in consultation with the Secretary of the Treasury, at which meeting consideration would also be given to the resolution submitted by Mr. Cunningham on October 12th, calling upon the Federal Advisory Council for copies of a resolution which it is understood was adopted at the last meeting of the Council, but which was not furnished the Board. The Governor stated that he has not yet consulted with the Secretary of the Treasury regarding the meeting which is to be held within thirty days from October 12th.

Mr. Cunningham stated that he was willing that action on the resolution submitted by him on October 12th be deferred to a date immediately following the next session of the Federal Advisory Council, and after discussion moved accordingly.

Carried.

10/31/27

-10-

After further discussion, action on the motions submitted by Mr. James was deferred until a meeting of the Board to be held tomorrow.

Mr. Hamlin stated that at the meeting at which Mr. James' motions are considered he will submit the following motion as a substitute for those submitted by Mr. James:

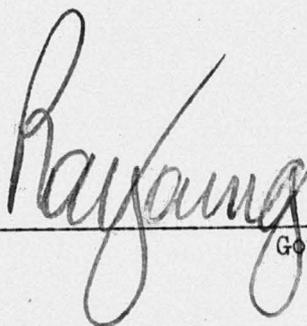
"That an abstract be made by the Secretary of the Board of all actions taken at meetings with the Board of the Federal Advisory Council and the Open Market Investment Committee."

REPORTS OF STANDING COMMITTEES:

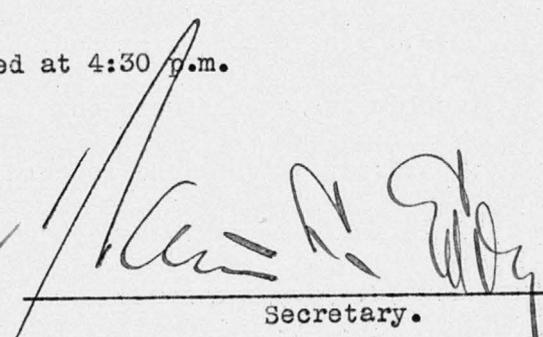
Dated, October 27th, Recommending changes in stock at Federal Reserve banks
 28th, as set forth in the Auxiliary Minute Book of this date.
 29th, Recommendations approved.
 31st,
 Dated, October 31st, Recommending action on application for fiduciary powers
 as set forth in the Auxiliary Minute Book of this date.
 Recommendation approved.

The meeting adjourned at 4:30 p.m.

Approved:



Governor.



Secretary.