

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, June 10, 1929 at 12:00 o'clock noon.

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

The minutes of the meeting of the Federal Reserve Board held on June 6th were read and approved.

Letter dated June 6th from the Secretary of the Federal Reserve Bank of New York, telegram dated June 7th from the Secretary of the Federal Reserve Bank of Cleveland and telegram dated June 6th from the Chairman of the Federal Reserve Bank of San Francisco, all advising that their boards of directors at meetings on the dates stated made no changes in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Reports of Executive Committee on letters dated June 7th and 8th from the Comptroller of the Currency, recommending approval of salaries of \$4,000 each for National Bank Examiners George R. Gaskell and Raymond G. Dann, assigned to the Fourth and Second Federal Reserve Districts, respectively; the Board's Committee also recommending approval.

Approved.

Reports of Committee on Salaries and Expenditures on lists submitted by the Federal Reserve Banks of Philadelphia, St. Louis and Dallas of employees for whom the directors of those banks approved leaves of absence with pay, on account of illness, during the month of May, where the total of such absences since January 1, 1929 has exceeded thirty days; the Board's

6/10/29

-2-

Committee recommending approval of the salary payments involved.

Approved.

Report of Committee on Examinations on letter dated June 6th from the Secretary of the Federal Reserve Bank of New York, transmitting and recommending approval of an application by the Seaboard National Bank of the City of New York, on behalf of the Seaboard Bank of the City of New York, into which it expects to convert on or about June 17th, for permission to accept drafts and bills of exchange drawn upon it up to 100% of its paid up and unimpaired capital and surplus. The Assistant Secretary reported that an application for membership on behalf of the state bank has also been received.

Upon recommendation of the Committee on Examinations, it was voted to approve the application for permission to accept up to 100%, effective if and when the Seaboard Bank of the City of New York begins business as a member of the Federal Reserve System.

Report of Committee on Examinations on memorandum dated June 6th from the Comptroller of the Currency, recommending approval of an application of the Fayette County National Bank of West Union, Iowa, for permission to reduce its capital from \$100,000 to \$50,000; the Committee recommending approval on condition that no money be returned to the shareholders and that \$86,000 of assets, consisting of all other real estate owned, all losses and doubtful assets and approximately \$12,000 of slow loans, be eliminated from the bank.

Upon motion, the reduction in capital was approved, subject to the conditions recommended by the Committee.

Letter dated June 5th from the Deputy Governor of the Federal Reserve Bank of New York, with respect to the status of the Open Market Investment Account and the condition of the bill and government securities markets; the

6/10/29

-3-

letter stating that there have been taken over into the account temporarily from the portfolio of the Federal Reserve Bank of St. Louis \$7,125,000 of Liberty Loan and Treasury Bonds and from the Federal Reserve Bank of Kansas City \$5,000,000 of 4% Treasury Bonds.

The above letter was noted, and at the suggestion of the Governor, it was voted to make inquiry as to whether the Federal Reserve Banks of St. Louis and Kansas City in temporarily turning securities over to the other Federal Reserve Banks, so obligated themselves with reference to repurchase of the securities that they should be reported as a contingent liability.

Draft of letter, prepared by Counsel, addressed to the Federal Reserve Agent at Chicago, advising that it will not be necessary for Mr. Otto N. Frenzel, Jr., to whom the Board has previously granted a permit to serve as officer of the Merchants National Bank, as director of the Fountain Square State Bank and as a director of the Brightwood State Bank, all of Indianapolis, Ind., to file a formal application for permission to serve as director of the Merchants National Bank in addition to his service as officer of that institution; the letter stating that for the purposes of the records, however, Mr. Frenzel should write an informal letter to the Board asking its permission to so serve.

Upon motion, the letter was approved.

Letter dated June 5th from the Federal Reserve Agent at Minneapolis, referring to the Board's letter of June 3rd (X-6320) on the subject of the preservation of member bank records and raising question as to the desirability of transmitting to member banks a copy of the letter on the subject which the Board received from the Assistant Attorney General of the United States.

After discussion, it was voted to transmit a copy of the Federal Reserve Agent's letter to the Assistant Attorney General for his information.

6/10/29

-4-

Memorandum from Counsel dated June 5th on the matter referred to the Law Committee at the meeting on May 23rd, namely, letter dated May 15th from the Secretary of the United States Civil Service Commission, requesting that the Board furnish the Commission with certain reports regarding its personnel; Counsel stating that while in the Federal Reserve Act it seems clearly to have been the intention of Congress that the employees of the Federal Reserve Board should not be affected in any way by Civil Service law, rules or regulations, there is an old statute passed before the enactment of the Civil Service Act and apparently not repealed, which gives the President broad powers as to regulating all employees in the Civil Service and is probably broad enough to apply to the employees of the Board. In his memorandum, Counsel suggested that if the Board, for any reason, should feel that the request of the Civil Service Commission should not be complied with, or at least not until further information is obtained, some representative of the Board might confer with a representative of the Commission regarding it.

The Law Committee concurring in the suggestion of a Conference, Mr. Hamlin, Chairman of the Committee, was, upon motion, requested to take the matter up with the Civil Service Commissioner.

Memorandum from Counsel dated June 4th, referring to the Board's action of May 29th and submitting drafts of proposed letters to the Chairmen of the Committees on Banking and Currency of the Senate and House of Representatives, recommending that the limitations applicable to the establishment of foreign branches by national banks should also govern the establishment of such branches by state member banks and that, accordingly, in order to establish a foreign branch a state member bank should be required to have a capital and surplus of

6/10/29

-5-

\$1,000,000 or more, to obtain permission from the Federal Reserve Board, and to be subject to such conditions and regulations as the Board may prescribe; the proposed letters submitting and requesting favorable action on a bill to amend Section 9 of the Federal Reserve Act in accordance with the recommendation.

Upon motion, the letters were approved and ordered transmitted.

Report of Committee on Examinations with respect to an application of the Brown City Savings Bank, Brown City, Michigan, for permission to reduce its capital from \$40,000 to \$25,000, in connection with the removal of certain undesirable assets incident to an extension of its charter; Mr. Platt, Chairman of the Committee, concurring in a favorable recommendation of the Federal Reserve Agent at Chicago but Mr. Cunningham recommending disapproval in view of the low ratio of capital to deposits which would prevail should the reduction in capital be made.

After discussion, upon motion, Mr. Cunningham was requested to take the matter up further with the Federal Reserve Agent at Chicago.

Report of Committee on Examinations on the matter referred to it at the meeting on May 23rd, namely, memorandum dated May 22nd from the Chief Examiner submitting report of an examination of the First Federal Foreign Banking Corporation, New York City, made as at the close of business December 12, 1928; the Committee noting the report of examination. Mr. Cunningham, however, expressed the wish that the Chief Examiner might appear before the Board and express his confidential opinion regarding some of the financial activities of the Corporation.

At his suggestion, the Assistant Secretary was instructed to arrange to have the Chief Examiner appear before the Board regarding the matter when he is next in Washington.

6/10/29

-6-

Memorandum from Counsel dated June 6th, submitting in accordance with the action of the Board at its meeting on May 28th draft of reply to letter from the Vice President of the Union National Bank of New Brighton, Pa., inquiring whether it would not be possible to increase Federal Reserve discount rates to those member banks carrying call loans and give a preferential rate to those using the Federal Reserve System for legitimate purposes; the proposed reply pointing out that the suggestion could not be adopted under the existing law.

Referred to the Governor with power.

The Assistant Secretary then submitted application of the Security State Bank and Trust Company, Beaumont, Texas, for membership in the Federal Reserve System and for 81 shares of stock in the Federal Reserve Bank of Dallas. He stated that in accordance with the action of the Board at its meeting on June 3rd the Committee on Examinations communicated with the Federal Reserve Agent at Dallas, regarding the imposition of a special condition of membership covering the bank's charter power to guarantee stocks, bills of exchange, bonds and mortgages and other securities, and was advised that the imposition of such a condition will be satisfactory to the applicant bank, which is not exercising the power.

Upon recommendation of the Committee on Examinations, it was, upon motion, voted to approve the application of the Security State Bank and Trust Company of Beaumont, Texas, for membership in the Federal Reserve System and for 81 shares of stock in the Federal Reserve Bank of Dallas, subject to the regular conditions set out in the Board's Regulation H, Series of 1928 and to the following special conditions:

"Except with the permission of the Federal Reserve Board, you shall not exercise the power which you have under your charter to guarantee stocks, bills of exchange, bonds and mortgages, and other securities.

6/10/29

-7-

"As provided in the Federal Reserve Board's regulation H, series of 1928, you shall increase your paid-up and unimpaired capital within five years after the approval of your application by the Federal Reserve Board to \$200,000. For the purpose of providing for such increase, you shall set aside each year in a fund exclusively applicable to such capital increase not less than 50 per cent of your net earnings for the preceding year prior to the payment of dividends, and if such net earnings exceed 12 per cent of your paid-up capital, then all net earnings in excess of 6 per cent of your paid-up capital shall be carried to such fund, until such fund amounts to \$75,000. Whenever such fund shall amount to \$75,000, or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by state law to increase your capital to the required amount. Such increase in capital may be provided in whole or in part by the sale of additional stock."

Memorandum dated May 29th from the Chief of the Division of Bank Operations, submitting replies received from the Federal Reserve banks to the Board's letter of April 23rd (X-6295), inquiring whether they would be willing to undertake the redemption of Canadian currency for member banks and if so how they would dispose of the currency and what discount they would expect to have to charge member banks normally in order to cover expenses in connection therewith; the memorandum stating that all Federal Reserve banks are willing to accept such currency provided satisfactory arrangements can be made for the redemption of such currency and recommending that a committee be appointed to determine the most efficient and economical means of effecting the redemption.

After discussion, upon motion, the Governor was authorized to appoint a committee to study the matter and he stated that he would request the Federal Reserve Banks of New York and Chicago to appoint representatives to serve on the committee with Mr. Smead, Chief of the Board's Division of Bank Operations.

Letter dated June 5th from the President of the Union Trust Company,

6/10/29

-8-

Newark, Ohio, member of the Federal Reserve System, commenting upon the credit situation and suggesting a prompt and firm declaration of policy by the Board along whatever lines may be deemed most proper.

Noted, and referred to the Governor for reply.

Letter dated June 6th from the Chairman of the Federal Reserve Bank of San Francisco, transmitting a report approved by his directors, formally replying to the Board's letter of May 2nd, requesting further and fuller cooperation in the Board's policy of preventing the misuse of the discount facilities of the Federal Reserve System by member banks.

Upon motion, the Assistant Secretary was directed to furnish a copy of the above letter to each member of the Board.

The Governor then reported a conversation with the Comptroller of the Currency, regarding difficulty being experienced with the Farmers National Bank of Bridgewater, S. D., which has been making excessive loans, has been deficient in its reserves and fails to comply with communications addressed to it by the Comptroller regarding corrective action. He stated that the Comptroller's only remedy in a case of this kind seems to be suit for forfeiture of charter but that there is question whether such action could be justified in the case under discussion.

At his suggestion, the Governor was authorized to communicate with the Federal Reserve Agent at Minneapolis and inquire as to the record of the bank with the Federal Reserve bank.

The Governor called attention to a notice sent out by him on Saturday of a special meeting of the Board at 11:00 o'clock tomorrow morning for a discussion of credit conditions and System policy.

6/10/29

-9-

REPORTS OF STANDING COMMITTEES:

- Dated, June 6th, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.
- Dated, June 6th, Recommending action on an application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.
Recommendation approved.
- Dated, June 6th, Recommending approval of the application of Mr. Jacob Post for permission to serve at the same time as director of the Hampton Bays National Bank, Hampton Bays, N. Y., as director of the First National Bank, Rockville Centre, N. Y. and as director of the Richmond Hill National Bank of Richmond Hill, New York, N. Y.
Approved.
- Dated, June 7th, Recommending approval of the application of Mr. Eugene V. R. Thayer for permission to serve at the same time as director and officer of the Central Trust Company of Illinois, Chicago, Ill., and as director of the Stock Yards National Bank, Chicago, Ill.
Approved.

The meeting adjourned at 1:15 p.m.

C. M. Woodland
Assistant Secretary.

Approved:

Raymond
Governor.