

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, March 17, 1932, at 11:45 a. m.

PRESENT: Governor Meyer

Mr. Hamlin

Mr. Miller

Mr. James

Mr. Magee

Mr. Morrill, Secretary

Mr. Harrison, Assistant to the Governor

Mr. Wyatt, General Counsel

Mr. Goldenweiser, Director, Division of Research and Statistics

Mr. Smead, Chief, Division of Bank Operations.

The minutes of the meetings of the Federal Reserve Board held on March 3, 4, 9, 10 and 11, 1932, were approved.

The Board then considered and acted upon the following matters:

Telegrams dated March 16, 1932, from the Chairmen of the Federal Reserve Banks of Philadelphia and St. Louis, advising that, at meetings of the Boards of Directors on that date, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Reports of the Committee on Salaries and Expenditures on letters dated March 7 and 11, 1932, from the Chairman of the Federal Reserve Bank of Dallas requesting approval by the Board of changes in the bank's personnel classification plan to provide for the creation of the new positions of "Custodian" and "Junior Stenographer" in the Reconstruction Finance Corporation Department; the Board's Committee recommending approval.

Approved.

Reply, approved by five members of the Board on March 16, to a letter dated March 8, 1932, from the Federal Reserve Agent at Dallas, reporting that the First National Bank, George West, Texas, was deficient in

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its required reserves during the period August 1, 1931 to February 15, 1932; the reply stating that, in accordance with the Federal Reserve Agent's recommendation, the Board is taking no action in the matter at the present time, although a copy of his letter is being sent to the Comptroller of the Currency as a matter of record in his office. The reply also requested that the Agent forward to the Board copies of the replies received from the directors to the letters which he had addressed to them concerning the bank's reserve position.

Reply approved.

Letter to the Federal Reserve Agent at New York, referring to a request made by the Rockland County Trust Company, Nyack, New York, for permission to withdraw immediately from membership in the Federal Reserve System under its voluntary notice of intention to withdraw dated March 10, 1932, and stating that in accordance with the recommendation contained in the Assistant Federal Reserve Agent's letter of March 14, 1932, made in view of the fact that the business of the member trust company had been acquired by the Nyack National Bank without a liquidating agent or receiver having been appointed, the Board has voted to waive in this case the usual requirement of six months notice and to permit the member institution to withdraw from membership immediately.

Letter approved.

Letter to the Comptroller of the Currency, replying to his memorandum of March 9, 1932, with regard to the application of the Allenhurst National Bank and Trust Company, Allenhurst, New Jersey, for permission to reduce its capital stock from \$100,000 to \$50,000 through a reduction of the par value of the stock from \$100 to \$50 per share, it being the plan of the bank

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immediately following the reduction to increase the capital to \$100,000 by the sale of new stock at \$75 a share and to credit the \$50,000 of released capital and the \$25,000 premium on the new stock to undivided profits for the purpose of eliminating losses and depreciation; the Comptroller recommending approval of the reduction and subsequent increase on condition (1) that no money be returned to stockholders, (2) that the money for the new stock be placed on deposit in a special account before the reduction is effected, (3) that the new stock be sold only to persons or concerns who have knowledge of the present condition of the bank and the use to which the released capital and the premium on the new stock are to be put, and (4) that estimated losses and depreciation in the amount of \$76,238 set up in the report of the last examination of the bank be charged off. The reply stated that, subject to the conditions recommended by the Comptroller of the Currency, the Federal Reserve Board approves the proposed reduction under the plan submitted, with the further understanding, however, that the reduction would be authorized by a vote of shareholders owning two-thirds of the stock of the national bank.

Letter approved.

Letters to the Chairmen of the Federal Reserve Banks of Philadelphia and Atlanta approved by five members of the Board on March 16, referring to their letters of March 10 and March 12, 1932, respectively, and stating that, in accordance with their requests, the Federal Reserve Board has voted to discontinue the progressive penalties previously prescribed for the Third and Sixth Federal Reserve Districts under the provisions of Section IV(c) of Regulation D, and that the banks should not resume the assessment of progressive penalties for continued deficiencies in reserves without first

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obtaining the consent of the Federal Reserve Board.

Letters approved.

Reply to a letter dated February 4, 1932, from the Federal Reserve Agent at Dallas requesting advice with respect to the procedure which should be followed in order to obtain corrections of unsatisfactory conditions in state member banks in that district; the reply stating that the Federal Reserve Board agrees with the Agent that it is highly desirable to maintain friendly relations with the state banking authorities in each state in the district in order to retain their valuable cooperation in matters relating to state member banks; that, in all cases where it is possible to do so, any corrections which in the Agent's opinion should be made in the condition of a state member bank should be obtained through the state banking authorities or with the cooperation of such authorities rather than through an independent approach to the state member bank involved; that the Board does not believe the Agent should make peremptory demands in any case upon a state member bank for a correction in its condition, but that when it appears that the state banking authorities will not take the necessary steps to obtain correction of an unsatisfactory condition in a state member bank it would seem appropriate for the Agent to call the attention of the bank involved to the unsatisfactory features of its condition and to make suggestions as to the steps which should be taken to improve its condition; that the Agent should consider the advisability in each of these cases of having a full discussion of the matter with the state banking authorities before communicating with the state member bank; and that it should be made clear to the state authorities that the Agent is not attempting to exercise any

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of their prerogatives but simply to discharge his duty of seeing that the member bank maintains the standard required for membership in the Federal Reserve System. The reply also stated that the Board has no objection to the Agent furnishing state member banks in his district with copies of reports (except confidential portions, if any) of examinations of the respective banks made by Federal reserve bank examiners; that it is believed that suggestions and criticisms contained in such reports would be helpful to the member bank involved and the possession of such reports would facilitate any correspondence or discussion which the Agent may have with the member bank with reference to its condition; and that it would not seem that state banking authorities could reasonably object to the Agent's furnishing member banks copies of such reports, although he may wish to discuss the matter with the banking authorities of the various states in the district before deciding whether to make a change in his present practice. The reply further stated that, when the Agent finds it necessary to consider with a state bank corrections which should be made in its condition, there would seem to be no reason why he should not fully and frankly advise the bank as to the action which he feels he should take in the event the bank does not take adequate steps to correct its condition; that it is understood, of course, that any such action would be fully justified by all of the circumstances involved in the case and that there would be legal grounds therefor; and that it is desirable to make use of all other available means to obtain correction of unsatisfactory conditions in a state member bank before advising the bank that the Agent will submit a recommendation to the Board that proceedings be instituted to terminate the bank's membership in the Federal Reserve System.

Reply approved.

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Letter, approved by five members of the Board on March 16, 1932, to the General Manager of the National Association of Finance Companies, replying to various letters addressed by him to members of the Federal Reserve Board, the President of the United States, the Secretary of the Treasury, and members of the Board's staff, and referring particularly to his letter of January 5, 1932, addressed to the Governor of the Board which contains a statement that "inasmuch as the matter (the eligibility of paper of finance companies for rediscount by Federal reserve banks) was never formally before the Board until the filing of our petition on October 21, 1931, we assume that prior to that time the matter was only casually considered by the Board's Counsel"; the Board's letter stating that the principles of law involved in the petition filed by the Association have been involved in questions which have been raised from time to time in the past and the advice of the Board's Counsel with respect to finance company paper was based upon carefully considered and uniform interpretations of the Federal Reserve Act extending over a considerable period of years which have been adopted by the Board in determining the eligibility of various classes of paper; that recognition was given by the Congress to these interpretations in the enactment of the amendments to the Federal Reserve Act relating to the paper of factors and of cooperative marketing associations; and that consequently the Board feels that no useful purpose would be served at this time by a review of the opinions which have formed the basis of the Board's rulings. The letter also stated that under the provisions of the so-called Glass-Steagall Bill, a Federal reserve bank may in certain special circumstances, with the permission of the Federal Reserve Board, make advances to its member banks on their notes, subject to the conditions and limitations prescribed

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in that Act, and that the security which may be accepted by the Federal reserve banks for such notes is not confined to the classes of paper eligible under other provisions of the law for rediscount or purchase by the Federal reserve banks.

Letter approved.

Letter to the Chairman of the Federal Reserve Bank of St. Louis, approved by five members of the Board on March 16, 1932, referring to the report of examination of that bank, made by the Board's examiners as of January 23, 1932, and requesting that the Board be advised as to any action that may have been taken as a result of the recommendations made by the examiners and their discussions with the officers of the bank regarding a number of the matters referred to in the report. The letter also requested advice particularly as to the attitude of the bank toward the recommendation of the examiner that the bank and its branches retain the originals or certified copies of financial statements of borrowers in lieu of the present practice of maintaining a card index which sets forth condensed analyses of borrowers' condition; as well as toward the recommendation that more detailed information regarding borrowers' assets and operations than is now shown on the analyses cards, be obtained by the Memphis Branch. The letter further requested that the Chairman's reply to the Board's letter be brought to the attention of the Board of Directors of the bank.

Letter approved.

Reports of Standing Committee dated March 15, 16 and 17, recommending approval of the following changes in stock at Federal reserve banks:

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<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 5.</u>		
First National Bank, Luray, Va.	3	3
<u>District No. 7.</u>		
Iowa State Savings Bank, Fairfield, Iowa.	1	
Lenawee County Savings Bank, Adrian, Michigan.	2	
Onsted State Bank, Onsted, Michigan.	1	4
	Total	7

<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 7.</u>		
State Bank of Wisconsin, Madison, Wis. (V.L.Abs. by First National Bank of Madison, Wis.)	933	
John Weedman National Bank, Farmer City, Ill. (Insolvent)	90	
First National Bank, Foosland, Ill. (Insolvent)	18	
First National Bank, LeRoy, Ill. (Insolvent)	54	
Polo State Bank, Polo, Ill. (Insolvent)	54	
Farmers & Wabash National Bank, Wabash, Ind. (Decrease in surplus)	39	
Story County Trust & Savings Bank, Ames, Iowa. (V.L.Suc. by nonmember bank)	44	
First National Bank, Shawano, Wis. (Cons. Wisconsin National Bank with the above bank)	54	1,286
<u>District No. 10.</u>		
Citizens National Bank, Great Bend, Kans. (Insolvent)	45	45
<u>District No. 12.</u>		
First Willapa Harbor National Bank, Raymond, Wash. (Insolvent)	72	72
	Total	1,403

Approved.

Thereupon the meeting adjourned.

Walter Howell
Secretary.

Approved:

August Heagy
Governor.