

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, May 16, 1932, at 11:45 a. m.

PRESENT: Governor Meyer
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Magee

Mr. Morrill, Secretary
Mr. McClelland, Assistant Secretary
Mr. Harrison, Assistant to the Governor.

The minutes of the meeting of the Federal Reserve Board held on May 6, 1932, were approved.

The Board then considered and acted upon the following matters:

Letter dated May 12, 1932, from the Secretary of the Federal Reserve Bank of New York, and telegram dated May 13, 1932, from the Secretary of the Federal Reserve Bank of Atlanta, both advising that at meetings of the boards of directors on the dates stated no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Report of the Committee on Salaries and Expenditures on a letter dated May 4, 1932, from the Chairman of the Federal Reserve Bank of Philadelphia requesting approval by the Board of a change in the bank's personnel classification plan to provide for the creation of a new department to be called the "Reconstruction Finance Corporation Department" and nineteen new positions in that department; the Board's committee recommending approval.

Approved.

Letter to the Chairman of the Federal Reserve Bank of Minneapolis referring to his letter of May 10, 1932, and advising that the Federal Re-

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serve Board approves salaries at the rate of \$4,000 per annum each for Messrs. William E. Peterson and Otis R. Preston who have been elected assistant cashiers of the Federal Reserve Bank of Minneapolis, and salaries at the rate of \$4,000 and \$3,000 per annum, respectively, for Messrs. Albert A. Hoerr and C. J. Larson who have been elected cashier and assistant cashier at the Helena branch.

Letter approved.

Telegram, approved by five members of the Board on May 14, 1932, to Mr. R. B. Coleman, Deputy Governor of the Federal Reserve Bank of Dallas, referring to his telephone conversation with Assistant Secretary McClelland, and stating that the margin fixed for each Federal reserve bank in the Board's letter of May 2, 1932, with regard to the pledging of direct obligations of the United States as collateral security for Federal reserve notes, is based on Federal reserve notes in circulation and not notes outstanding; that the margin was arrived at by a formula applied alike to all Federal reserve banks, and that the amount specified should not be exceeded. The telegram also suggested that, if the margin fixed for the Dallas bank is not sufficient under the present operating procedure, the Federal reserve agent appoint, subject to the Board's approval, an employee at one or more of the branches to act as assistant Federal reserve agent who will be carried on the agent's payroll and report solely to him, and that in addition to his duties in connection with the custody of notes the employee might act as the agent's representative in the credit department in passing upon collateral for notes, assist in the bank examination department, and perform such other duties as the agent may designate. The telegram further stated that if United States securities owned by the Dallas bank are held in joint custody of the bank

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and the Federal reserve agent any part of such securities may be pledged as collateral for Federal reserve notes by having custody records show serial numbers of securities so pledged.

Telegram approved.

Letter to the Comptroller of the Currency, approved by five members of the Board on May 13, referring to Acting Comptroller Awalt's memorandum of May 4, 1932, recommending approval of the application of the Mechanics National Bank, Worcester, Massachusetts, for permission to reduce its capital stock from \$500,000 to \$250,000; the letter stating that, with the understanding that the proposed reduction will be authorized by the vote of shareholders owning two-thirds of the stock of the national bank, the Federal Reserve Board approves the reduction under the plan submitted subject to the conditions recommended by the Acting Comptroller of the Currency, (1) that immediately following the reduction, the capital be increased to \$500,000 by selling 2,500 shares of new capital stock at \$200 per share, such stock to be sold to persons or concerns who have knowledge as to the present condition of the bank and the use to which the released capital and the premium on the new stock are to be applied, (2) that no part of the reduction be returned to stockholders but the released capital and the premium on the new stock be credited to the "Reserve for Contingencies" account, and, (3) that \$500,000 of cash for the purchase of the new stock be on deposit in the bank in a special account for that purpose before the decrease becomes effective.

Letter approved.

Letter to the Comptroller of the Currency referring to his memorandum of April 28, 1932, recommending approval of the application of the

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Bernardsville National Bank, Bernardsville, New Jersey, for permission to reduce its capital stock from \$100,000 to \$50,000 through a reduction in the par value of shares from \$100 to \$25 and the issuance of two shares for each one now held; the letter stating that with the understanding that the proposed reduction will be authorized by a vote of shareholders owning two-thirds of the stock of the national bank, the Federal Reserve Board approves the reduction under the plan submitted subject to the conditions recommended by the Comptroller of the Currency, (1) that immediately following the reduction the capital be increased to \$100,000 by selling \$50,000 of new stock for \$75,000, such stock to be sold only to persons or concerns who have knowledge as to the present condition of the bank and the use to which the released capital and the premium on the new stock are to be applied, (2) that \$75,000 of cash for the purchase of the new stock be on deposit in the bank in a special account for that purpose before the increase becomes effective, and (3) that no part of the reduction be returned to stockholders but the released capital and the premium on the new stock be credited to the undivided profits account and \$75,000 charged off against depreciation on defaulted bonds.

Letter approved.

Letter to the Federal Reserve Agent at Richmond, approved by five members of the Board on May 13, 1932, stating that the Board has considered the information submitted in connection with the application of the Peninsula Bank and Trust Company, Williamsburg, Virginia, for membership in the Federal Reserve System, and the recommendation of the executive committee of the Federal Reserve Bank of Richmond that such application be approved, but that the Board is not prepared to approve the application

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unless certain improvements are made in the bank's condition. The letter outlined the conditions under which the Board would be willing to give favorable consideration to the bank's application, requested that the agent interview the management of the bank and develop its attitude with reference to a compliance with the requirements which the Board would make, and suggested that, if the bank is not inclined to meet the requirements of the Board at this time, the agent advise the institution that it would seem appropriate that it request the Board not to take any action on its application, and to submit a new application for consideration of the Board when the necessary adjustments in its condition have been effected.

Letter approved.

Certificate stating that the Herkimer National Bank of Herkimer, New York, has duly surrendered its right to act in fiduciary capacities and is no longer authorized to exercise trust powers under the provisions of Section 11(k) of the Federal Reserve Act; together with a letter to the Herkimer National Bank transmitting the certificate referred to, and letters to the Comptroller of the Currency and the Federal Reserve Agent at New York advising of the issuance of the certificate. The Secretary reported for the record that the national bank had filed with the Board a certified copy of a resolution of the board of directors of the bank signifying its desire to surrender its right to exercise trust powers; that the Assistant Federal Reserve Agent at New York had recommended that the right of the bank to exercise trust powers be terminated; and that pursuant to a request made by the Board on October 5, 1931, the Comptroller of the Currency, after an examination of the bank, had advised the Board

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that the bank has been relieved of all of its duties as fiduciary.

The certificate was approved, as were the letters to the Herkimer National Bank, the Comptroller of the Currency and the Federal Reserve Agent at New York.

Reply to a letter dated March 16, 1932, from Mr. E. A. Duncan, Chairman of the Commercial Credit Company, Baltimore, Maryland, requesting advice as to the legal basis upon which the Federal Reserve Bank of New York rediscounts paper of so-called "factors" engaged principally in the textile business in New York City; the reply stating that, under the provisions of the Federal Reserve Act, a Federal reserve bank may discount paper arising out of actual commercial transactions, that is, paper issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which have been or are to be used for such purposes; that the regulations of the Federal Reserve Board further define the paper thus eligible for discount as paper "which has been issued or drawn or the proceeds of which have been used or are to be used in the first instance in producing, purchasing, carrying or marketing goods in one or more of the steps of the process of production, manufacture, or distribution"; that the Federal Reserve Board is informed by the Federal Reserve Bank of New York that the factors or commission merchants to which Mr. Duncan apparently refers perform essential functions in the sale and distribution of goods and that funds or credits advanced by them to the manufacturers of the goods constitute in fact, partial payment therefor, and that when the proceeds of notes of such factors or commission merchants are used in the first instance in making payments for goods purchased or in carrying or marketing goods in one or more of the steps of distribution and not for the purpose of making loans to others, then such notes arise out

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of commercial transactions within the meaning of the Federal Reserve Act and are eligible for rediscount by Federal reserve banks.

Reply approved.

Reply to a letter dated April 30, 1932, from the cashier of the National City Bank of New York requesting permission for the exercise of fiduciary powers by the national bank at its branches located at Manila and Cebu, Philippine Islands; the reply stating that under permits heretofore granted by the Federal Reserve Board pursuant to Section 11(k) of the Federal Reserve Act, the National City Bank is authorized to act when not in contravention of State or local law as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the state of New York, and that the Federal Reserve Board consents to the exercise by the National City Bank of any of the fiduciary powers heretofore granted to it at its branches located at Manila and Cebu, Philippine Islands, provided that the exercise of such powers is not in contravention of the local law and that, in exercising such powers at these branches, the bank shall comply in all respects with the applicable provisions of the Federal Reserve Act and the Federal Reserve Board's regulations. The reply further stated, in response to specific inquiries, that if State banks, trust companies or other corporations which come into competition with national banks are permitted under the laws of the State of New York to act as transfer agent, the National City Bank may act in this capacity at its Philippine branches subject to the conditions above

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mentioned, and that the right to act as guardian of estates, considered in connection with the right to act as committee of estates of lunatics, includes authority to act as guardian of estates of lunatics.

Reply approved.

Reply, prepared for the signature of the Secretary of the Treasury at the request of Honorable James H. Douglas, Assistant Secretary of the Treasury, and approved by five members of the Federal Reserve Board on May 13, to a letter addressed to the Secretary of the Treasury under date of April 25, 1932, by the Chairman of the Committee on Banking and Currency of the Senate requesting a report on Senate bill 4473; the reply stating that, under the provisions of the bill, certain member banks might upon application be designated as auxiliary rediscounting banks and be permitted, under certain conditions, to designate nonmember State banks as associate members, the notes of customers of which would be eligible for rediscount at a Federal reserve bank when indorsed by such an associate and by an auxiliary rediscounting bank, without regard to the use of the proceeds of the notes and without limitation as to their maturities. The reply outlined reasons why the enactment of the proposed bill would not be desirable.

Reply approved.

Reply, prepared for the signature of the Secretary of the Treasury at the request of Under Secretary of the Treasury Ballantine and approved by five members of the Federal Reserve Board on May 13, to a letter addressed to the Secretary of the Treasury under date of April 21, 1932, by the Chairman of the Committee on Banking and Currency of the Senate requesting a report on Senate Bill 4429. The reply stated that under the terms of

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this bill the Federal Reserve Board, the Federal reserve banks and the Secretary of the Treasury would be charged with the duty of making effective a policy that the average purchasing power of the dollar in the wholesale commodity markets for the year 1926 shall be restored and maintained by the expansion and contraction of credits and currency through the powers of the United States and its agencies; that in the opinion of the Secretary of the Treasury it would not be possible for the Government of the United States to carry out such a mandate; that price levels are dependent upon a large number of factors that are beyond the control of the Federal Reserve System, the Treasury Department, or any other agency of the Government; that it is not believed that it would be wise to impose upon them a duty and a responsibility which they could not discharge, and that such an attempt would tend to undermine the confidence of the people in the various agencies of the Government and the result would be unfortunate. The reply also called attention to, and inclosed a copy of, the record of the testimony of Governor Meyer and Mr. Goldenweiser at the recent hearings held before a sub-committee of the Committee on Banking and Currency of the House of Representatives on the so-called Goldsborough bill which has a purpose similar to the bill above referred to. The reply added that the passage by the House of Representatives of the Goldsborough bill was a disturbing factor both at home and abroad and that the members of the Federal Reserve Board unanimously oppose the enactment of legislation of this character and approve the position taken by Governor Meyer in his testimony at the hearings above referred to.

Reply approved.

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Reports of Standing Committee dated May 14 and 16, 1932, recommending approval of the following changes in stock at Federal reserve banks:

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 5.</u>		
National Bank of Burlington, North Carolina.	90	90
<u>District No. 11.</u>		
State National Bank of Iowa Park, Iowa Park, Texas.	36	36
	<u>Total</u>	<u>126</u>

Approved.

Reports of Standing Committee dated May 13, 1932, recommending approval of the following Clayton Act applications:

Mr. V. F. Roterer, for permission to serve at the same time as officer of the First National Bank in Minneapolis, Minnesota, and as director and officer of the Hennepin State Bank of Minneapolis, Minnesota.

Mr. R. B. Rathbun, for permission to serve at the same time as officer of the First National Bank in Minneapolis, Minnesota, and as director of the Produce State Bank, Minneapolis, Minnesota.

Mr. J. Clayton, for permission to serve at the same time as officer of the First National Bank in Minneapolis, Minnesota, and as director of the First National Bank of Sleepy Eye, Minnesota.

Mr. M. O. Grangaard, for permission to serve at the same time as officer of the First National Bank in Minneapolis, Minnesota, and as director of the Security National Bank of Willmar, Minnesota.

Mr. C. K. Blandin, for permission to serve at the same time as director of the First National Bank of Grand Rapids, Minnesota, and as director of the First National Bank of St. Paul, Minnesota.

Mr. Louis W. Hill, Jr., for permission to serve at the same time as director of the First National Bank of St. Paul, Minnesota, and as director of the Red River National Bank and Trust Company of Grand Forks, North Dakota.

Mr. Frank J. Ottis, for permission to serve at the same time as director of the First National Bank of Saint Paul, Minnesota, and as director of the Grand Avenue State Bank of Saint Paul, Minnesota.

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Mr. E. T. Foley, for permission to serve at the same time as director of the First National Bank of St. Paul, Minnesota, and as director of the Grand Avenue State Bank of St. Paul, Minnesota.

Approved.

Thereupon the meeting adjourned.

Claster Merrill
Secretary.

Approved:

Augustus
Governor.