

A meeting of the Federal Reserve Board was held on Monday, May 23, 1932, at 12:35 p. m.

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

Mr. Morrill, Secretary
Mr. McClelland, Assistant Secretary
Mr. Harrison, Assistant to the Governor
Mr. Wyatt, General Counsel.

The following matters of business were presented for the consideration and action of the Board:

Memorandum from Assistant Secretary Noell recommending approval of the employment of a vacation relief telegraph operator in the Board's telegraph office during the months of July and August, 1932, with salary at the rate of \$165 per month.

Recommendation approved.

Letter dated April 21, 1932, from the Federal Reserve Agent at Cleveland stating that if it is agreeable to the Board he desires to be away from the bank for a week or ten days.

Noted with approval.

Renewal bond in the amount of \$50,000, executed on May 17, 1932, by Mr. Carl Schelling as assistant to act for the Federal Reserve Agent at Chicago in the performance of his duties.

Bond approved.

Report of the Committee on Salaries and Expenditures on a letter dated May 13, 1932, from the Chairman of the board of directors of the Federal Reserve Bank of Dallas recommending approval of a change in the bank's personnel classification plan to provide for the creation of the new

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position of "R.F.C. Clerk" in the Reconstruction Finance Corporation Department; the Board's Committee recommending approval.

Approved.

Telegraphic reply, approved by five members of the Board on May 21, 1932, to a telegram of that date from the Governor of the Federal Reserve Bank of Boston requesting authority to advance, in accordance with the provisions of Section 10(b) of the Federal Reserve Act, as amended, to the Worcester Bank and Trust Company, Worcester, Massachusetts, not exceeding \$1,000,000, at a rate of 5 1/2% per annum, payable on demand, and secured by miscellaneous listed and unlisted bonds of a par value of \$3,129,000 and a market value of \$1,640,000. The reply stated that the Federal Reserve Board authorizes the Federal Reserve Bank of Boston to take such action under the terms and conditions recommended.

Reply unanimously approved.

Reply, approved by five members of the Board on May 20, to a memorandum dated May 10, 1932, from the Comptroller of the Currency recommending approval of the application of the National Bank of Far Rockaway, New York, for permission to reduce its capital stock from \$500,000 to \$250,000 through an issue of 5,000 shares of \$50 par value stock in place of the present 5,000 shares of \$100 par value stock; the reply 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, subject to the conditions (1) that no part of the reduction be returned to stockholders, and (2) that \$50,000 of the released capital be credited to the bank's surplus fund and \$200,000 to the undivided profits account, against which account

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there shall be charged off items amounting to \$178,768.

Reply approved.

Letter to the Peoples City Bank, McKeesport, Pennsylvania, approved by five members of the Board on May 20, 1932, stating that the Federal Reserve Board has approved the bank's application for membership in the Federal Reserve System and for stock in the Federal Reserve Bank of Cleveland subject to certain conditions set forth in the letter.

Application and letter approved.

Letter to the Farmers and Merchants Bank, Caldwell, Ohio, stating that the Federal Reserve Board has approved the application filed by the bank for membership in the Federal Reserve System and for stock of the Federal Reserve Bank of Cleveland, subject to certain conditions set forth in the letter.

Application and letter approved.

Letter to the Federal Reserve Agent at Dallas with reference to his letter of April 29, 1932, transmitting the application of the Roby State Bank, Roby, Texas, successor to the First State Bank of Roby, for membership in the Federal Reserve System, and stating that, in view of the circumstances involved, the executive committee of the Federal reserve bank had unanimously recommended that the application be approved without requiring the usual examination of the bank by a Federal reserve examiner. The Board's letter stated that the examination of the predecessor bank by the State bank examiner as of April 1, 1932, indicated a highly unsatisfactory condition and that, although a substantial amount of losses were eliminated in connection with the organization of the new bank, the Federal Reserve Board does not feel that it can approve its application for mem-

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bership in the Federal Reserve System when it seems likely that an examination of the assets of the bank by a Federal reserve examiner would disclose a sufficient amount of additional losses to create a substantial impairment of its present capital, but that, if the agent deems it advisable to arrange an independent examination of the Roby State Bank, the Board will be pleased to give further consideration to the application for membership on the basis of a new report and recommendation from the agent after he has been advised of the results of the examination.

Letter approved.

Reply, approved by five members of the Board on May 20, to a letter dated May 2, 1932, from the Federal Reserve Agent at New York advising that the Federation Bank and Trust Company, New York City, New York, desires to retain its membership in the Federal Reserve System in case it reopens for business under its existing charter; the reply stating that, in accordance with the agent's recommendation, the Board will take no action at this time to cancel the Federal reserve bank stock held by the member bank, and requesting that if and when the bank reopens, the agent obtain and forward for the information of the Board a certificate from the Superintendent of Banks of the State of New York as to the paid-up capital and surplus of the bank at the time of reopening, together with a statement that the bank has reopened under its existing charter.

Reply approved.

Telegram to the Federal Reserve Agent at Richmond replying to his letter of May 19, 1932, recommending an extension for six months of the authority granted to the South Carolina National Bank of Charleston, South Carolina, on October 12, 1931, to rediscount paper acquired from the

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South Carolina State Bank, a nonmember; the reply stating that the Board authorizes the Federal reserve bank, until October 12, 1932, in its discretion, to rediscount for the national bank good and eligible paper acquired from or bearing the signature or indorsement of the nonmember bank.

Reply approved.

Reply, approved by five members of the Board on May 20, to a letter dated May 9, 1932, from the Federal Reserve Agent at Dallas, referring to the last report of examination of the Continental-American Bank and Trust Company, Shreveport, Louisiana, which showed the bank to be carrying a large number of loans secured by its own stock, and stating that the stock so held has been disposed of except in the case of two lines. The reply stated that, in view of the circumstances involved and the Federal reserve agent's recommendation that the bank be granted additional time to dispose of the stock securing these lines, the Board will defer action on the matter at this time, it being understood that the agent will continue to urge the bank to dispose of the stock as soon as possible and that he will report to the Board the progress made in this connection after the next examination of the bank.

Reply approved.

Reply to a letter dated May 16, 1932, from the Federal Reserve Agent at St. Louis reporting that the First National Bank of Lawrenceville, Illinois, was continuously deficient in its required reserves during the period of six months ending April 30, 1932; the reply stating that, in view of the information submitted and the agent's suggestion that every opportunity should be given the Chief National Bank Examiner to save the

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national bank, the Federal Reserve Board will take no action in the matter at this time other than to forward a copy of the agent's letter to the Comptroller of the Currency for the information of his office.

Reply approved.

Reply to a letter dated April 14, 1932, from the Federal Reserve Agent at Philadelphia with regard to the acquisition of the assets and the assumption of the deposit and loan liabilities of the Waymart State Bank, Waymart, Pennsylvania, a nonmember, by the Wayne County Savings Bank, Honesdale, Pennsylvania, as of December 12, 1931; the reply stating that because of the present unsatisfactory condition of the member bank as revealed by a report of examination as of January 18, 1932, the Board will defer action on the question as to whether the transaction resulted in any material change in the general character of the assets of the member bank, or in the scope of the functions exercised by it within the meaning of the general condition under which it was admitted to membership in the Federal Reserve System, until after another examination of the institution. The reply also requested that, following the next examination the agent submit to the Board the information thus developed, together with his recommendation in the premises.

Reply approved.

Reply to a letter dated March 17, 1932, from the Federal Reserve Agent at Chicago, with regard to the consolidation on September 15, 1931, of the Security National Bank, the American National Bank, and the Home State Bank for Savings, all of Grand Rapids, Michigan, under the charter of the Home State Bank for Savings and under the title of the American

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Home Security Bank; the reply stating that the Board will defer final action on the question as to whether the consolidation resulted in a violation of the conditions of membership of the Home State Bank for Savings until after the next examination of the consolidated institution. The reply also requested that, following the next examination, the agent submit to the Board the information thus developed, together with his recommendation in the premises.

Reply approved.

Telegraphic reply, approved by five members of the Board on May 21, to a telegram dated May 12, 1932, from Deputy Governor Clerk of the Federal Reserve Bank of San Francisco inquiring as to how the liabilities incurred by member banks under the provisions of Section 10(a) of the Federal Reserve Act should be shown on the published statements of the member banks; the reply stating that any State member bank which belongs to a group formed under Section 10(a) should report its proportionate liability, based on gross deposits, on any advance made to the group by the Federal reserve bank as advances "from Federal reserve bank", item 1(a) of schedule H of the quarterly condition report form 105, and, unless it has received the proceeds of such advance, should also report the same amount as "loans to banks and trust companies", item 4 of schedule E of form 105; that a bank which has received the proceeds of an advance made to the group by the Federal reserve bank should report the excess in the amount of its indebtedness to the group over the amount of its proportionate liability on such advance as advances "from other banks and trust companies", item 1(b) of schedule H, but that the books of the bank that obtains an advance

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from the group should show that the note given by it to the group covers the full amount of such advance.

Reply approved.

Telegraphic reply, approved by five members of the Board on May 21, to telegrams dated May 12 and 16, 1932, from Governor Calkins and Deputy Governor Clerk of the Federal Reserve Bank of San Francisco, with regard to loans to member banks under the provisions of section 10(a) of the Federal Reserve Act; the reply stating that the law requires that a beneficiary bank be a co-maker of the group note to the Federal reserve bank and that this requirement cannot be waived; that if State law precludes a State member bank from obligating itself as required by section 10(a) or in an amount necessary for the advance applied for, the advance cannot be made, but that in view of the provision of section 10(a) that member banks are authorized to obligate themselves in accordance with the provisions thereof, consideration should be given to the question whether State law authorizes member banks to exercise all powers conferred by the Federal Reserve Act. The reply also outlined the requirements, and a suggested procedure to be followed, in connection with the resolution to be adopted by the board of directors of each bank in the group, and stated that it is desirable that the forms actually used in connection with any advances under section 10(a) be submitted to the Board before the request for approval of the advance.

Reply approved.

Reply to a letter dated May 14, 1932, from Congressman Louis T. McFadden requesting the opinion of the Board on H. R. 7620, a bill to

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create Federal Home Loan Banks; the reply stating that, in view of the fact that the bill provides for a system of banks entirely distinct from and having no direct relation to the Federal reserve banks, and is designed to provide a type of credit essentially different from that provided by the Federal reserve banks, the Federal Reserve Board would not be in a position to express an opinion on the matter without making a detailed analysis of the provisions of the bill and an extensive study of the questions involved, and that, in view of the numerous important matters within its province which require the Board's consideration, the Board does not feel justified at this time in undertaking to comply with Congressman McFadden's request.

Reply approved.

Reply to a letter dated April 23, 1932, from Honorable A. A. Ballantine, Under Secretary of the Treasury, with regard to certain proposed legislation to enable the Treasury Department to afford relief to holders of defaced national bank notes, Federal reserve bank notes and Federal reserve notes, which was approved at the meeting of the Federal Reserve Board on February 19, 1931, and which was submitted to Congress last year but on which no legislative action was taken; the reply stating, in response to specific inquiries, that, in view of the great differences between the respective amounts of Federal reserve notes of the several Federal reserve banks outstanding, it would not be equitable to apportion equally among the twelve Federal reserve banks the charges for defaced Federal reserve notes which may be redeemed by the Treasury, and it is suggested that the bill be amended so as to provide that such charges shall

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be apportioned among the twelve Federal reserve banks in proportion to the amount of Federal reserve notes of each Federal reserve bank in actual circulation on December 31 of the year preceding such redemption; that while the establishment of joint liability of all Federal reserve banks for the redemption of defaced notes may seem inconsistent with the provisions of the Federal Reserve Act which make each Federal reserve bank individually liable for the amount of its own notes and not jointly liable with other Federal reserve banks, it is believed the provisions of the bill, if amended in accordance with the above suggestions, would do substantial justice, and that there is no important practical objection to the resulting joint liability for the redemption of defaced notes. The reply further stated that the Board knows of no reason why a limitation should be placed upon the amount of each class of currency which would be redeemed under the bill and would not be disposed to favor such a limitation unless the Treasury Department considers it advisable.

Reply approved.

Reference was then made to the action taken by the Governor of the Federal Reserve Bank of New York last week in appointing a committee of business men and bankers in that district for the purpose of developing ways and means of making effective use of the funds which are being made available by the open market program of the Federal Reserve System, and to a telegram dated May 21, 1932, from the Governor of the Federal Reserve Bank of Richmond inquiring whether the Board indorses the suggestion that such action be followed by other Federal reserve banks. The Governor reported in some detail on meetings of the New York committee which he attended on Thursday and Friday of last week at the Federal Reserve Bank of New York.

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A discussion followed, at the conclusion of which the following telegram to the Governors of all Federal reserve banks except New York was approved:

"Following the discussion at the conference held in Washington last week, the Governor of the Federal Reserve Bank of New York appointed a committee of business men and bankers for the purpose of developing ways and means of making effective use of the funds which are being made available by the open market program of the Federal Reserve System. The Federal Reserve Board feels that it would be desirable for each Federal reserve bank to follow this type of action in its district."

Mr. Hamlin then referred to an address made by Mr. Walter Lichtenstein, executive secretary of the First National Bank of Chicago, and Secretary of the Federal Advisory Council, before the Minneapolis Chapter of the American Institute of Banking on May 13, 1932, and to a personal letter which he had addressed to Mr. Lichtenstein regarding certain statements contained in the address. He stated that a copy of his letter had been forwarded to each member of the Federal Advisory Council and also to the other members of the Board for their information, and that a copy had also been filed with the Secretary of the Board.

Thereupon the meeting adjourned.

Walter Mowill
Secretary.

Approved:

Eugene C. Meyer
Governor.