

A meeting of the Federal Reserve Board was held in Washington on Wednesday, September 7, 1932, at 12:00 o'clock noon.

PRESENT: The Chairman  
Governor Meyer  
Mr. Miller  
Mr. James  
Mr. Magee

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

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

Telegrams dated September 2, 1932, from the Chairmen of the Federal Reserve Banks of Chicago and Kansas City, and September 7, 1932, from the Chairmen of the Federal Reserve Banks of Boston, St. Louis and Dallas, all 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.

Telegraphic reply, approved by five members of the Board on September 6, to telegram dated September 2, 1932, from Assistant Deputy Governor Gidney of the Federal Reserve Bank of New York, requesting approval of a renewal in the reduced amount of \$76,100, for a period of ninety days from September 6, 1932, at a rate of 5 1/2% per annum, of the advance made by the Federal Reserve Bank of New York, in accordance with the provisions of section 10(b) of the Federal Reserve Act, as amended, to the Jefferson Trust Company, Hoboken, New Jersey; the reply stating that the Federal Reserve Board authorizes the renewal in the reduced amount, as requested by the bank.

Unanimously approved.

Telegraphic reply dated September 7, to telegram dated September 6, 1932, from Assistant Deputy Governor Gidney of the Federal Reserve Bank of

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New York, requesting approval of a renewal in the reduced amount of \$1,224,000, for a period of ninety days from September 12, 1932, at a rate of 5 1/2% per annum, of the advances, maturing September 12 and September 22, made by the Federal Reserve Bank of New York, in accordance with the provisions of section 10(b) of the Federal Reserve Act, as amended, to the Franklin Washington Trust Company, Newark, New Jersey; the reply stating that the Federal Reserve Board authorizes the renewal in the reduced amount, as requested by the bank.

Unanimously approved.

Telegraphic reply, approved by five members of the Board on September 6, 1932, to a telegram of that date, from Deputy Governor Clerk of the Federal Reserve Bank of San Francisco, requesting authority for an advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, as amended, to the First National Bank, Salt Lake City, Utah, in the amount of \$600,000, maturing December 15, 1932, at a rate of 5 1/2% per annum, and on the security of bonds and customers' secured and unsecured loans having a total collateral value of \$901,000; the advance being desired to place the bank in a position to meet possible demands which may arise as a result of the closing of the First National Bank of Idaho, Boise, and nine affiliated banks situated in or adjacent to cities and towns in which are located banks controlled by the First Security Corporation which also controls the applicant bank. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Unanimously approved.

Telegraphic reply, approved by five members of the Board on September 6, 1932, to a telegram of that date, from Deputy Governor Clerk of the Federal Reserve Bank of San Francisco, requesting authority for an advance, in

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accordance with the provisions of section 10(b) of the Federal Reserve Act, as amended, to the First National Bank, Ogden, Utah, in the amount of \$400,000, maturing December 15, 1932, at a rate of 5 1/2% per annum, and on the security of bonds and customers' secured and unsecured loans having a total collateral value of \$614,000; the advance being desired to place the bank in a position to meet possible demands which may arise as a result of the closing of the First National Bank of Idaho, Boise, and nine affiliated banks situated in or adjacent to cities and towns in which are located banks controlled by the First Security Corporation, which also controls the applicant bank. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Unanimously approved.

Memorandum dated September 3, 1932, from Assistant Secretary Noell, requesting authority to employ for an additional period of two days, at a rate of \$.40 per hour, the two men whose employment for five days was authorized by the Board on August 31, to assist in arranging the Board's supply of bulletins, annual reports, and other material in the Board's new offices in the Shoreham building.

Approved.

Memorandum dated September 1, 1932, from Mr. L. A. A. Siems, Federal Reserve Examiner, recommending approval of the transfer to Washington, effective September 10, 1932, of Mr. R. B. Chamberlin, Assistant Federal Reserve Examiner, presently assigned to the field force of the Examining Division, to assist in the work of the Washington office of the Board's Division of Examinations, without change in title or in his present salary of \$4,200. The memorandum further stated that the transfer is agreeable to Mr. Drinnen, the

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Examiner in Charge, who will arrange to fill the vacancy caused by this transfer.

Approved.

Memorandum dated August 30, 1932, from Mr. Frank J. Drinnen, Federal Reserve Examiner, recommending the appointment of Mr. Carroll R. Highfield, as an Assistant Federal Reserve Examiner, with salary at the rate of \$1,900 per annum, effective September 16, 1932, to fill the vacancy caused by the resignation on July 31, 1932, of Assistant Federal Reserve Examiner Farrell.

Upon motion, it was voted to appoint Mr. Highfield an examiner for all purposes of the Federal Reserve Act as amended and of all other Acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board; to designate him as an Assistant Federal Reserve Examiner, and to fix his salary at the rate of \$1,900 per annum, all effective September 16, 1932.

Certificate dated August 19, 1932, from the General Accounting Office certifying that the account of the Federal Reserve Board, in the name of W. M. Inlay, deceased, as Fiscal Agent, has been examined and settled in full.

Noted.

Reply, approved by five members of the Board on September 3, to a letter dated August 26, 1932, from the Federal Reserve Agent at St. Louis reporting that the West End Bank, University City, Missouri, was continuously deficient in its required reserves during the period of seven and one-half months ending August 15, 1932; the reply stating that, in view of the information submitted, and in accordance with the agent's recommendation, the Board will take no action in the matter at this time. The reply also requested that the agent advise the Board, within a reasonable time, as to whether the bank has restored and is maintaining its required reserves.

Approved.

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Reply, approved by five members of the Board on September 3, to a letter dated August 26, 1932, from the Federal Reserve Agent at Minneapolis reporting that the First National Bank of Iron River, Michigan, and the First National Bank of Conrad, Montana, have been continuously deficient in their required reserves for more than six months; the reply stating that, in view of the information submitted, and in accordance with the agent's recommendation, the 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. The reply also requested that the agent advise the Board, within a reasonable time, as to whether the respective banks have restored and are maintaining their required reserves.

Approved.

Letter to the Federal Reserve Agent at Chicago, approved by four members of the Board on September 2, 1932, referring to Assistant Federal Reserve Agent Young's letter of August 25, 1932, with regard to continuous reserve deficiencies of the Peoples State Bank of Milan, Michigan, the First National Bank of Hillsdale, Michigan, the Citizens Commercial & Savings Bank of Flint, Michigan, and the Millington National Bank of Millington, Michigan; the letter stating that the Board has previously advised the agent that it will take no action at this time in the matter of the deficiencies of the First National Bank of Hillsdale, the Citizens Commercial & Savings Bank of Flint and the Millington National Bank of Millington, and that, assuming that the circumstances in the case of the Peoples State Bank of Milan are the same as those of the other three banks, the Board is taking no action in connection with the reserve deficiencies of that bank. The letter stated, however, that copies of communications addressed to the Detroit branch by the First National Bank

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of Hillsdale and the Millington National Bank of Millington, together with a copy of Mr. Young's letter of August 25, are being forwarded to the Comptroller of the Currency for his information.

Approved.

Letter to the First National Bank of Neenah, Wisconsin, approved by five members of the Board on September 3, 1932, advising of the approval of the application filed by that bank, through the Federal Reserve Agent at Chicago, for permission to exercise general fiduciary powers in accordance with section 11(k) of the Federal Reserve Act; the exercise of all such rights being subject to the provisions of the act and the regulations of the Federal Reserve Board.

Approved.

Letter to the Federal Reserve Agent at San Francisco, approved by five members of the Board on September 3, 1932, with regard to the action of the Superintendent of Banks of the State of Oregon, reported in Assistant Federal Reserve Agent Sargent's letter of August 23, in terminating the exercise of trust powers by the American National Bank of Klamath Falls, Oregon, and the United States National Bank of McMinnville, Oregon; the letter stating that it is assumed that the action of the Superintendent of Banks of the State of Oregon was taken merely to permit the withdrawal of securities which the banks had on deposit with him in connection with the operation of their trust departments, and calling attention to the fact that, if such securities have actually been withdrawn, the banks cannot lawfully resume the exercise of trust powers under the terms of section 11(k) of the Act without again depositing with the State authorities the securities required by State law for the protection of private or court trusts. The letter also stated

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that although the Board may issue to a national bank which desires to surrender its right to exercise trust powers a certificate terminating the rights of the bank in that respect, the Board does not feel that it should suggest to the national banks referred to that they request the Board to issue such a certificate.

Approved.

Letter to the Federal Reserve Agent at Philadelphia, approved by five members of the Board on September 6, 1932, with further reference to the action of the York Trust Company, York, Pennsylvania, taken as of December 4, 1931, in acquiring certain of the assets and assuming the liabilities, other than to stockholders, of the North York State Bank, York, Pennsylvania, also a member institution; the reply stating that from a review of the analysis of the report of examination of the York Trust Company as of April 2, 1932, and other information submitted with the agent's letter of July 13, 1932, it is apparent that the transaction has resulted in no material change in the general character of the assets of the York Trust Company or broadening 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, and that the Board will, therefore, interpose no objection to the transaction. The letter also referred to three loans carried by the York Trust Company as of the date of the examination which were partly secured by shares of its own stock and stated that in view of the information and recommendation contained in a letter from Assistant Federal Reserve Agent Hill of August 26, 1932, the Board will not at this time insist upon the elimination or substitution of such collateral, although the matter should be made the subject of close attention on the part of the agent's office and the

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York Trust Company should be urged to either eliminate the stock or replace it with other collateral at the first favorable opportunity.

Approved.

Reply, approved by four members of the Board on September 3, to a letter dated August 13, 1932, from the Federal Reserve Agent at San Francisco, inquiring whether funds collected by banks under the Revenue Act and held for remittance to the Collector of Internal Revenue are subject to reserve; the reply stating that it is the assumption of the Board that the agent refers to amounts collected pursuant to the requirements of section 751 of the Revenue Act of 1932, which contains the provisions with respect to the tax on checks, drafts or orders for the payment of money, and that it is the opinion of the Federal Reserve Board that amounts collected by member banks and held pending payment to the Collector in accordance with the provisions of the statute in question do not constitute deposits within the meaning of Section 19 of the Federal Reserve Act and, accordingly, are not subject to the reserve requirements of that section.

Approved.

Letter to the Governor of the Federal Reserve Bank of Richmond referring to his letter of August 9, 1932, with regard to the right of the Federal Reserve Bank of Richmond to advance additional capital to certain concerns in High Point, North Carolina, in order to avoid losses which might otherwise be incurred on paper of the concerns acquired by the Federal Reserve Bank of Richmond from the Commercial National Bank of High Point, North Carolina, which is now in receivership; the reply stating that the Federal Reserve Board concurs with counsel for the Federal Reserve Bank of Richmond that a Federal reserve bank has the legal authority to make advances for the



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purpose of furnishing additional capital to firms or corporations which are indebted to it, under such safeguards as may be practicable, if, in the judgment of the Federal reserve bank, based upon a careful consideration of all of the facts of the case, such advances are necessary in order to avoid or reduce losses which otherwise would be sustained on credits previously extended in good faith in the transaction of the bank's usual business. The letter further stated that, in view of the liability of the member bank upon its indorsement on the paper held by the reserve bank, it is assumed that consideration will be given, in any such case, to the possibility of arranging with the member bank or its receiver to advance such sums as may be necessary for this purpose, without prejudice to the rights of the Federal reserve bank, and that in any event appropriate measures will be adopted under the advice of counsel to preserve the liability of the member bank on the paper held by the reserve bank. The letter stated further that it is also assumed that the Federal reserve bank in determining the necessity or advisability of making advances for this purpose will consider, as one of the factors, the amount of the dividends which it may reasonably anticipate from the liquidation of the member bank.

Approved.

Memoranda from Counsel dated July 7 and August 20, 1932, submitting draft of a letter to the Federal Reserve Agent at St. Louis with regard to the ownership by the Mississippi Valley Trust Company of St. Louis, of the capital stock of the Mississippi Valley Company which is engaged in the practice of issuing guaranteed first mortgage participation certificates; the proposed letter stating that, since it appears that the Mississippi Valley Trust Company was not, at the time of its admission to membership in the Fed-

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eral Reserve System, engaged in issuing guaranteed first mortgage participations, its present practice of issuing such participations through a subsidiary corporation, without having obtained the Board's approval is contrary to the spirit and purpose of the so-called general condition of membership to which it is subject, if not an actual violation of such condition, and that while the Board does not look with favor upon commercial banking institutions engaging in the business of guaranteeing mortgages or issuing obligations secured thereby, either directly or through affiliated corporations, in view of the facts recited in the agent's letter of May 14, 1932, and the recommendation contained therein, the Board for the present will interpose no objection to the issuance of guaranteed first mortgage participations by the Mississippi Valley Company, provided that the total deposit liabilities of the trust company, plus the total liabilities of the subsidiary on mortgage participation certificates issued by it, plus all similar liabilities of the trust company and the subsidiary, do not at any time exceed in the aggregate an amount equal to ten times the capital and surplus of the trust company.

A discussion ensued during which members of the Board stated their objections to the conduct of the type of business referred to by commercial banking institutions, either directly, through subsidiaries, or through affiliated institutions.

Counsel was requested to reconsider the legal aspects of the matter and it was also suggested that the Board be furnished, by the Division of Bank Operations, as complete information as may be available with respect to the extent to which such business is conducted by member banks generally.

The Secretary was requested to address an interim letter to the Federal Reserve Agent at St. Louis advising him that the question raised by his letter of

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May 14, 1932, is being considered by the Board, that the Board is not favorably disposed towards the practice in question, and that he will be advised later with respect to the particular case of the Mississippi Valley Trust Company.

The Governor then reported receipt of advice this morning of the sale by the Federal Reserve Bank of Chicago, for delivery tomorrow, of \$20,000,000 of the United States Government obligations which were purchased by it for its own account during the banking disturbances which occurred in Chicago the latter part of June. He recalled the fact that these purchases by the Chicago bank were taken into consideration by the Open Market Policy Conference and that during the week they were made purchases for System account were reduced proportionately. He also referred to the possibility that a reduction in System holdings due to the sale being made by the Chicago bank may be interpreted publicly as an indication of a change in System policy and expressed the opinion that this matter, as well as the general question of the System's open market policy, should be discussed at a meeting with the Open Market Policy Conference or the Executive Committee thereof early next week.

After some discussion the Governor was requested to communicate with the Governor of the Federal Reserve Bank of New York, as Chairman of the Open Market Policy Conference, and, after doing so, he reported back to the Board that Governor Harrison will call a meeting of the Executive Committee of the Conference to be held in Washington on Friday, September 9, 1932.

Reports of Standing Committee dated September 2, 1932, recommending approval of the following changes in stock at Federal reserve banks:

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
District No. 1.		
Day Trust Company, Boston, Massachusetts.	3	3
(Increase in surplus)		

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<u>Applications for ADDITIONAL Stock: (Cont'd)</u>		<u>Shares</u>	
<u>District No. 7.</u>			
Iowa State Savings Bank, Fairfield, Iowa. (Increase in surplus)	1		1
<u>District No. 11.</u>			
Mercantile Bank & Trust Company of Dallas, Texas. (Increase in surplus)	30		
Citizens State Bank, Greenville, Texas. (Increase in surplus)	1		31
		<hr/>	<hr/>
	Total		35
<u>Applications for SURRENDER of Stock:</u>			
<u>District No. 5.</u>			
First National Bank, Frostburg, Maryland. (Decrease in surplus)	30		
First National Bank, Salisbury, North Carolina. (Decrease in surplus)	6		36
<u>District No. 8.</u>			
First-Mercer National Bank of Harrodsburg, Kentucky. (V.L.Suc. by Mercer County National Bank of Harrodsburg)	108		
First National Bank, Bentonville, Arkansas. (V.L. Abs. by Benton County National Bank of Bentonville)	45		
Union National Bank, Elizabethtown, Kentucky. (V.L.Abs. by First-Hardin National Bank)	36		
National Bank of Unionville, Missouri. (Insolvent)	25		214
<u>District No. 9.</u>			
First National Bank, Page, North Dakota. (V.L.Suc. by First State Bank of Page, nonmember)	23		23
<u>District No. 10.</u>			
First National Bank, Loveland, Colorado. (V.L.Suc. by First National Bank in Loveland)	90		90
<u>District No. 11.</u>			
First State Bank, Roaring Springs, Texas. (Decrease in surplus)	9		
First National Bank, Silvertown, Texas. (Decrease in surplus)	15		
Farmers & Merchants National Bank, Venus, Texas. (Decrease in surplus)	9		33
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	Total		396

Approved.

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Thereupon the meeting adjourned.

Walter Merrill  
Secretary.

Approved:

Em Wm L. Smith  
Chairman.