

A meeting of the Federal Reserve Board was held in Washington on Wednesday, October 5, 1932, at 12:45 p. m.

PRESENT: Mr. Magee, Presiding
Mr. Hamlin
Mr. James

Mr. Morrill, Secretary
Mr. McClelland, Assistant Secretary
Mr. Harrison, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Wingfield, Assistant Counsel
Mr. Siems, Federal Reserve Examiner.

The Secretary stated that the meeting had been called as a meeting of the Board with the acquiescence of Governor Meyer (who is in New York), and Mr. Miller (who is ill at home), as well as of the members present, for the purpose of giving consideration to a pending application for the issuance of a permit to the City National Bank and Trust Company of Chicago to exercise fiduciary powers, because of the fact that the organizers of the bank desire to open it for business with such powers on the morning of Thursday, October 6, 1932, and that both the Federal Reserve Agent at Chicago and the Acting Comptroller of the Currency had submitted favorable recommendations. It was reported to the members present that Mr. Miller wished to be advised over the telephone as to the attitude of the members present before making a final decision. It appeared that the bank would have in cash an initial capital of \$4,000,000 and surplus of \$1,000,000 paid in; that it was contemplated that the bank would assume the deposit liabilities of the existing Central Republic Bank and Trust Company of Chicago, a State member bank, amounting to approximately \$72,000,000, and would receive from that bank an equal amount of cash; that thereupon the new bank would purchase from the Reconstruction Finance Corporation \$15,000,000 of paper selected from among the collateral pledged with the corporation to secure advances made by it to

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the Central Republic Bank and Trust Company; and that it would probably invest approximately \$40,000,000 in United States Government obligations. It appeared also that in connection with the acquisition from the Reconstruction Finance Corporation of the paper mentioned there would be an agreement which would give to the City National Bank and Trust Company the right to require substitution during a period of sixty days with respect to \$5,000,000 of the paper purchased, and for an additional period of thirty days, or ninety days in all, with respect to \$2,500,000 of such \$5,000,000. In this connection it was stated that the Chief National Bank Examiner had reviewed the paper which it was contemplated would be purchased by the new bank, of which he had classified \$4,000,000 as being slow, and it was pointed out that the City National Bank and Trust Company under its proposed agreement would have the right to require substitution for such slow paper. In addition, it appeared that the new bank contemplated entering into a management contract with the Central Republic Bank and Trust Company whereby the trusts held by the latter would be serviced by the new bank for compensation to be paid by the old bank, and that all new trust business would be taken into the trust department of the new bank, together with such trusts as might be transferred from time to time from the old bank under court orders or by the consent of the interested parties. It was stated that while the latest complete examination of the affairs of the old bank, including the trust department, was made by the Auditor of Public Accounts of the State of Illinois in May, 1931, a partial investigation of the trust department was made in connection with an examination of the bank in November, 1931, and that the Chief National Bank Examiner had inspected the reports of examinations of the trust department made by the Auditor of

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Public Accounts of the State of Illinois and had reported that they were satisfactory, except as to certain trusts of the former National Bank of the Republic which had been absorbed by the Central Republic Bank and Trust Company and on which liabilities aggregating possibly as much as \$500,000 in one case and \$100,000 in another case might develop. However, it appeared that attorneys who had considered the matter were not clear that such liability existed, and in any event that there would be no such liability assumed by the new bank in connection with these trusts. It was reported that the present trust officers of the Central Republic Bank and Trust Company, who are to be connected with the trust department of the new institution, were not responsible for the existence of these contingent liabilities, and that both the Chief National Bank Examiner and the Federal Reserve Agent at Chicago were of the opinion that the officers who had been designated to handle the affairs of the trust department of the new bank were competent men and that they stood well among bankers in Chicago. Information which had been obtained by the Federal Reserve Agent at Chicago regarding the personnel of the board of directors and management of the new bank was also submitted to the Board, in connection with which it was stated that the Acting Comptroller of the Currency had been advised that the selection of a President of the bank was not necessarily permanent and that the board of directors expected to give consideration to the possibility of obtaining someone else for the position.

During the discussions which ensued Mr. F. G. Awalt, Acting Comptroller of the Currency was invited to attend the meeting and participated in the further discussion. It was pointed out that according to the information which had been obtained by the Board it appeared that the capital and surplus would have a relation of about one to fourteen of

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deposit liabilities and that this would be considerably beyond the maximum ratio that normally would be regarded as advisable in a going banking institution. Mr. Awalt stated that he was in full accord with this view and that it had been his intention at the time of issuing a charter to address a letter to the institution regarding this aspect of the matter and stating that it was understood and expected by the Comptroller's Office that the capital of the bank would be increased as soon as practicable so that it would bear a ratio of not more than one to ten of deposit liabilities. It was also pointed out that although it appeared that there would be no responsibility assumed by the new bank for any liability that might have developed with respect to the administration of the existing trusts in the trust department of the old bank, the fact that such trusts were to be serviced by officials of the new bank might lead to some misunderstanding on the part of the public which might become embarrassing at some future time. In the circumstances, the view was expressed that it would be desirable for the new bank at the time of opening to issue a statement informing the public as to the relation of the new bank to the trusts held in the trust department of the old bank. In addition, the view was expressed that it would be desirable to obtain from the directors of the new bank written or telegraphic assurance that the understanding of the Acting Comptroller of the Currency with respect to increasing the capital of the bank would be carried out. The Acting Comptroller and the Board's General Counsel were requested to confer for the purpose of formulating an appropriate form of communication between the bank and the Board or the Acting Comptroller with respect to these matters for the benefit of the records of the Board.

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Thereupon a brief recess was taken.

Upon reconvening the members of the Board were advised that during the recess the Acting Comptroller of the Currency had communicated by telephone with officials of the new bank with the result that telegrams as follows had been received:

"Awalt
Comptroller of Currency Washn

"Be assured that as soon as practicable the new banks capital and surplus will be increased to not less than one tenth of the deposit liability.

Charles G Dawes"

"Federal Reserve Board
Washington

"We can assure you that at the earliest practical moment a joint letter will be sent by the old and new banks to beneficiaries under all trusts of the old bank explaining relations between the two banks and calling attention to the fact that the new bank assumes no responsibility for trusts in the old bank.

J. E. Otis, President, Central Bank
and Trust Company
Philip R. Clarke, President, City
National Bank and Trust
Company
Charles G. Dawes."

The Board members were advised that the procedure outlined in the second telegram had been suggested by the Chicago banks because it was believed that it would accomplish the purpose desired by the Board in a more effective manner than a public statement and at the same time would avoid an unnecessary misunderstanding as to the relation between the old and the new bank. The assurances given in these telegrams being acceptable to the members of the Board present, they requested the Assistant Secretary to

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communicate over the telephone with Mr. Miller. The Assistant Secretary withdrew from the meeting for this purpose and upon his return reported that Mr. Miller stated that he joined with the other members of the Board in approving the application before them. Mr. Harrison advised the Board that Governor Meyer would also join in such action. Thereupon the Secretary was authorized to send the following telegram to the Federal Reserve Agent at Chicago:

"Effective if and when City National Bank and Trust Company of Chicago, Illinois, is authorized by Comptroller of the Currency to commence business with paid-in capital and surplus of \$4,000,000 and \$1,000,000, respectively, Federal Reserve Board approves application made on behalf of such proposed national bank for permission to exercise, when not in contravention of State or local law, all fiduciary powers authorized by provisions of section 11(k) of Federal Reserve Act, the exercise of all such rights being subject to provisions of that Act and Regulations of Federal Reserve Board. Board's approval of such application is also subject to condition that board of directors of such proposed national bank shall, after its organization is completed, pass a resolution ratifying action taken by organizers in making application for trust powers on behalf of such national bank. A certified copy of resolution adopted in this connection should be forwarded to Board as soon as possible. When all requirements described above have been complied with and a copy of such resolution is received by Board a formal certificate covering right of City National Bank and Trust Company of Chicago to exercise trust powers will be forwarded to bank. Please advise organizers of that bank of Board's action in this matter."

Consideration was then given to an application of Mr. George F. Getz for permission to serve at the same time as a director of the Continental Illinois Bank and Trust Company, Chicago, Illinois, the Upper Avenue Bank of Chicago, Illinois, and the City National Bank and Trust Company, Chicago, Illinois. The Secretary reported that he had been advised by the Federal Reserve Agent at Chicago that Mr. Getz, at present a director of the first named institutions and the Central Republic Bank and

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Trust Company, was a substantial subscriber to the capital stock of the new bank and, having been approached to serve as a director of the latter institution, had agreed to resign as a director of the Central Republic Bank and Trust Company and serve the new bank in that capacity, provided the necessary permit is granted by the Board.

After discussion, it was decided to grant the permit applied for by Mr. Getz, advising him, however, that under the provisions of the Clayton Anti-Trust Act all permits are subject to revocation by the Board after reasonable notice and hearing; that the Board is now considering certain general questions affecting a number of applications and permits; that some of these questions may have a bearing upon the permit issued to him and that, accordingly, the Board may again consider his case when it has reached a decision upon the general questions referred to.

This action was communicated to Mr. Miller over the telephone by the Assistant Secretary, who reported that Mr. Miller concurred in the action taken, but desired to have the following statement made in the record:

"Mr. Miller stated that he voted for the application because of his understanding that Mr. Getz was regarded as an important factor in perfecting the organization of the City National Bank and Trust Company and in consideration of the emergency circumstances surrounding the organization of the bank. He stated, however, that he felt the case was an extremely doubtful one and that only in the most urgent considerations of emergency would he vote for a renewal of it at the time it comes up for review by the Board."

Thereupon the meeting adjourned.

Clara M. Howell
Secretary.

Approved:

Raymond T. Mance
Chairman, Executive Committee.