

A meeting of the Federal Reserve Board was held in Washington on Friday, November 18, 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 Board considered and acted upon the following matters:

Letter dated November 17, 1932, from the Secretary of the Federal Reserve Bank of New York, and telegram dated November 17, 1932, from the Secretary of the Federal Reserve Bank of San Francisco, both advising that the boards of directors, at meetings on that date, made no changes in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Telegraphic reply to a telegram dated November 17, 1932, from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for the renewal for a period of ninety days from November 20, 1932, with interest at the rate of 5 1/2% per annum, of the advance in the amount of \$15,000 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 Farmers National Bank, Theresa, New York; Deputy Governor Rounds stating that the bank's position has not improved sufficiently to enable it to liquidate the loan at this time. The reply stated that the Board authorizes the renewal of the advance subject to the terms and conditions recommended.

Approved.

Reply to a letter dated November 12, 1932, from the Chairman of the Federal Reserve Bank of Atlanta advising of an arrangement with the Reconstruction Finance Corporation, made with the approval of the board of

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directors of the bank, for the apportionment of the services of Mr. T. N. Knowlton, Assistant Cashier of the Birmingham Branch, between the supervision of the custody division of the corporation at the branch and the operations of the branch. The reply stated that the Federal Reserve Board approves the provision of the arrangement for the reimbursement to the branch by the Reconstruction Finance Corporation of two-thirds of Mr. Knowlton's salary.

Approved.

Letter to the Federal Reserve Agent at Dallas referring to Assistant Federal Reserve Agent Evans' letter of November 14, 1932, with which he inclosed a statement of the expenses incurred by him during his trip to Mexico City to examine, for the Federal Reserve Board, the branch of The Chase Bank located in that city. The Board's letter inclosed the statement submitted by Mr. Evans and suggested that it be paid in the regular course by the Federal Reserve Bank of Dallas, following which a request should be made to the Federal Reserve Board for reimbursement, such request to include an item covering Mr. Evans' salary for the period of his absence from Dallas in connection with the examination.

Approved.

Reply to a letter dated November 10, 1932, from the Federal Reserve Agent at Philadelphia reporting that the Beech Creek National Bank of Beech Creek, Pennsylvania, was continuously deficient in its required reserves during the previous six months. The reply stated that, in accordance with the agent's recommendation, the Board will take no action in the matter other than to forward a copy of his letter and attachment to the Acting 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

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bank has restored and is maintaining its required reserves.

Approved.

Letter to the Federal Reserve Agent at Chicago, replying to Assistant Federal Reserve Agent Young's letter of October 31, 1932, with regard to the continuous reserve deficiencies of the First Henry National Bank, Henry, Illinois, the First National Bank and Trust Company, Cambridge City, Indiana, the First National Bank, Lewisville, Indiana, and the Elk Rapids State Bank, Elk Rapids, Michigan; Mr. Young stating that the First National Bank of Lewisville has suspended, and that the reserve records of the three other banks continue to be unsatisfactory, although it is believed that the First National Bank and Trust Company of Cambridge City is doing everything in its power to restore its reserves. The Board's letter stated that a copy of Mr. Young's letter is being forwarded to the Acting Comptroller of the Currency for the information of his office, so far as it relates to national banks; suggested that, if the agent has not already done so, he consider the advisability of addressing a letter to each of the directors of the First Henry National Bank and the Elk Rapids State Bank pursuant to section IV(b) of Regulation D; and requested that he advise the Board what decision is made in this matter, and that he keep the Board currently advised of any developments in the reserve records of the banks.

Approved.

Letter to the Acting Comptroller of the Currency referring to the action of the Board in deferring consideration of the fiduciary application of the Gloucester National Bank of Gloucester, Massachusetts, until after the receipt of the first report of examination of that institution, and inclosing a copy of a letter dated November 4, 1932, from the Federal Reserve Agent at

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Boston recommending, on the basis of information disclosed in the report of examination of the bank as of September 29, 1932, that action on the application be held in abeyance until a later date. The Board's letter requested the Acting Comptroller to advise whether in his opinion there is any reason why action on the application should not be deferred until after the report of another examination of the institution has been received; also, that if he is in agreement with this suggested procedure he arrange at the time of the next examination to have the examiner again investigate and report on the proposed supervision of the trust department of the national bank, and after the report of examination has been received, he advise whether on the basis of the condition of the bank as disclosed thereby he would recommend approval of the application.

Approved.

Letter to the Federal Reserve Agent at St. Louis referring to the application of the Farmers National Bank, Glasgow, Kentucky, for permission to exercise certain additional fiduciary powers, and to the Board's letter of August 11, 1932, advising that action on the application had been deferred until after receipt of the next report of examination of the institution. The letter also inclosed a copy of a letter dated October 31, 1932, from the Acting Comptroller of the Currency advising of the submission of a plan for the organization of a new bank to take over the Farmers National Bank, and stated that this information is being brought to the attention of the Federal reserve agent at this time in order to afford him an opportunity to look into the matter, so that he may be prepared to submit promptly a recommendation to the Board in the event the proposed new bank is to apply for trust powers.

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Approved.

Letter to the First National Bank, Plainfield, New Jersey, which institution is the result of a consolidation of the First National Bank of Plainfield and the Fourth National Bank of Plainfield, inclosing a certificate of the consolidated bank's authority to exercise the trust powers previously granted to the First National Bank of Plainfield.

Approved.

Telegram to Assistant Federal Reserve Agent Fry at Richmond advising of approval by the Board of the issuance of 21 shares of stock of the Federal Reserve Bank of Richmond to the First National Bank, Terra Alta, West Virginia, if and when the Comptroller of the Currency authorizes the bank to reopen with a capital of \$25,000 and surplus of \$10,000; and that in view of the fact that the stock is being issued in connection with a reopening of a closed bank rather than the organization of a new bank, and as the Federal reserve bank has received payment on the subscription, no formal application for stock need be obtained.

Approved.

Letter to the Federal Reserve Agent at San Francisco referring to Assistant Federal Reserve Agent Sargent's letter of October 24, 1932, advising that the Live Stock State Bank, North Portland, Oregon, whose voluntary notice of intention to withdraw from membership in the Federal Reserve System expires on February 13, 1933, has now been moved into an outlying district within the corporate limits of Portland where a State bank applying for membership would be required to have a capital of at least \$100,000, whereas the capital of the member bank is only \$50,000. The reply stated that the Board has given further consideration to the request which

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accompanied the notice filed by the Live Stock State Bank of its intention to withdraw from membership, for waiver of the usual six months notice of intention to withdraw, and, in view of all the circumstances involved, has waived the remainder of the six months period so as to permit the bank to withdraw from membership immediately.

Approved.

Letter to the Federal Reserve Agent at Atlanta referring to the analysis of report of examination as of September 8, 1932, of the Bank of Dawson, Georgia, which, in addition to other unsatisfactory features, discloses that the bank is holding 21 shares of its own stock as a non-book asset. The Board's letter requested that the agent advise, within a reasonable time, as to whether the bank has effected the elimination of this stock, and as to any further improvement accomplished in the condition of the bank subsequent to its letter of October 21, 1932, to the Superintendent of Banks of the State of Georgia.

Approved.

Letter to the Governor of the Federal Reserve Bank of Richmond inclosing a bill in the amount of \$15,746.73 received from Mr. Newton D. Baker covering his fee and expenses in connection with his services in the cases of Federal Reserve Bank of Richmond v. Attmore and Lucas v. Federal Reserve Bank of Richmond and in other related litigation. The letter stated that this bill has been approved by the Federal Reserve Board and is transmitted with the suggestion that, if approved by the directors of the bank, payment be made direct to Mr. Baker. The letter also referred to the Board's letter of November 7, 1930, advising that all Federal reserve banks had agreed to participate in the employment of Mr. Baker in connection with this litigation.

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tion and stated that the Board would be glad to arrange to have the other Federal reserve banks reimburse the Richmond bank for their pro rata shares of Mr. Baker's fee and expenses as soon as advice is received that payment to Mr. Baker has been made.

Approved.

Reply, approved by four members of the Board on November 16, to a letter dated November 4, 1932, from the Chairman of the Federal Reserve Bank of Chicago, inquiring as to what theory has been used by the Board as a basis for the classification of member banks for elections of Class A and B directors; Mr. Stevens stating that this information is desired in connection with the consideration of the Board's telegram of September 10, 1932, suggesting a canvass of the situation in each Federal reserve district with a view to submitting recommendations as to changes in group classifications prior to the regular annual elections in 1933. The reply stated that, although it was suggested in the Board's letter of October 12, 1928, (X-6159) that consideration be given to the advisability of adopting the rule that whenever member banks are reclassified for electoral purposes group two should contain approximately one-third of the total number of member banks and groups one and three be determined with reference to both number of banks and aggregate amount of capital and surplus, the Board has not adopted this or any other fixed basis for dividing member banks into electoral groups. The letter also called attention to the view expressed by the November, 1928, conference of Federal reserve agents that the classification and grouping of member banks for electoral purposes must be determined by the needs of each individual Federal reserve district.

Approved.

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The Governor reported that Mr. James P. Warburg, President of the International Acceptance Bank, New York City, called on him this morning in connection with the proposed reorganization of the Manhattan Company and its affiliated organizations, and stated that the Manhattan Company had just been advised that the Board would probably require, in connection with its consideration of the application of the proposed Bank of Manhattan Company for membership in the Federal Reserve System, current examinations of the Bank of Manhattan Trust Company and the International Acceptance Bank, and an investigation of the assets of the Manhattan Company, and might also require the disposition of the stock now held by the Manhattan Company of the County Trust Company, White Plains, New York, and the Corning Trust Company and the North Side State Bank, both of Corning, New York. Mr. Warburg referred, Governor Meyer stated, to the meeting of the shareholders to approve the proposed reorganization which had been called for Tuesday, November 22, and indicated that it is planned to complete the organization so that the new institution can open for business on November 28, 1932, and that it would be impossible in the meantime to comply with reported requirements of the Board; but that it is desired to open the new institution as a member of the Federal Reserve System, giving the Board, if desired, commitments that the bank stock referred to will be disposed of within a reasonable time and that the bank will meet the requirements of the Board as to the correction of criticized matters following an examination subsequent to admission to membership.

The Secretary stated that the proposed reorganization of the Manhattan Company and its affiliates had first come to the attention of the Board through an article in a New York newspaper of October 19, 1932, and that when Mr. Dillistin, Assistant Federal Reserve Agent at New York, was in Washington on October 22, the examination division discussed these matters fully with

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Mr. Dillistin and pointed out to him the desirability of giving them immediate consideration in order that the consideration of the prospective application for membership might be expedited as much as possible. The Secretary also stated that Mr. Siems of the Division of Examinations had called Mr. Dillistin on the telephone several times during the following week for the purpose of ascertaining what had been done with respect to these matters, and that, with the approval of the Board a letter was transmitted to the Federal reserve agent on November 3, 1932, when the suggestion was again made that these matters be brought to the attention of the parties concerned. On the same date the formal application of the new bank for membership in the Federal Reserve System was transmitted to the Board by Assistant Federal Reserve Agent Dillistin. The Secretary added that on Monday, November 14, 1932, while Mr. Case was in Washington the matter was discussed with him at length, that he indicated that he had not appreciated the significance of the information that Mr. Dillistin had received, and that he agreed to cooperate hereafter in the handling of these matters. While there is nothing in the Board's records, Mr. Morrill stated, indicating exactly when the matter of the proposed reorganization was first taken up with the Federal reserve agent, it was understood that such action was taken by the organizers in late August or early September and that it appeared that there had been ample time to develop current information concerning the assets of the Manhattan Company and its affiliates and to determine what should be done about the bank stocks above referred to. He also stated that the Chief of the Board's Division of Examinations is now in New York City for the purpose of rendering such assistance as he can in the assembling of all additional information that is available in connection with the application. During the ensuing

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discussion Mr. Siems, Federal Reserve Examiner, joined the meeting.

Mr. Warburg was invited into the room and Mr. Wyatt, General Counsel, also joined the meeting.

Mr. Warburg briefly outlined the difficulties which are presented by the failure to advise the organizers of the proposed new bank as to the requirements of the Board in connection with the company's application for membership in the Federal Reserve System, and various possibilities of the situation were discussed with him. He then left the meeting to confer over the telephone with Mr. Stephen Baker, Chairman of the Bank of the Manhattan Trust Company, New York City.

Mr. Wyatt called attention to the fact that section 9 of the Federal Reserve Act provides that no State bank may retain or acquire stock in a Federal reserve bank except upon the relinquishment of any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is located, and that while the banks in question may not be branches, as such, of the new Bank of the Manhattan Company, it appears that ownership or a controlling interest in each was acquired by the Manhattan Company subsequent to February 25, 1927, and that to permit the new bank to become a member without disposing of the stocks in question would seem to be in contravention of the spirit and purpose of the law, or an evasion of its requirements. In this connection, Mr. Warburg had stated that the company would like to retain the County Trust Company and convert it into a branch if the law should be amended this winter to permit branch banking. He expressed the hope that, in view of the unusual circumstances in which the membership application is before the Board, it would feel justified in admitting the bank with the assurance that it would dispose

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of the bank stock holdings referred to within a reasonable time if so required.

Upon his return to the meeting, Mr. Warburg stated that he had been authorized to advise the Board that, if the application is approved, the bank will agree to use its best efforts to remedy any criticized matters disclosed by a subsequent examination; also, that it will use its best efforts to dispose of the stock of the three banks within a reasonable time, possibly by July 1, 1933, although the bank would prefer to retain the stock of the County Trust Company of White Plains with the idea of converting it into a branch should the law be amended so as to permit such action.

Mr. James then suggested that the organization of the new bank could be effected in accordance with the present plans and that it could establish a nonmember clearing account with the Federal Reserve Bank of New York until the requirements of the Board can be met and the application for membership approved in the regular course. Upon inquiry by Mr. James, Mr. Wyatt stated that such a procedure is permitted by law. Mr. Warburg stated that while such suggested procedure is possible, in his opinion, it would be inadvisable from the standpoint of the bank.

Further discussion followed during which Governor Meyer left the room, having previously stated that he had made arrangements which necessitated catching an early train, and the meeting continued as a meeting of the Executive Committee with Mr. Magee presiding.

At the conclusion of a further discussion, Mr. Warburg withdrew from the meeting.

Thereupon it was agreed that Mr. Magee should arrange for a meeting of the Board on Monday at such time as he and Governor Meyer may determine

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for the purpose of considering further the application of the proposed Bank of Manhattan Company, and Mr. Harrison was requested to inform Mr. Paulger by telephone that the Board desired him to continue as vigorously as possible the inquiries which he had been making and to arrange as far as practicable for the cooperation of Federal reserve and State examiners in developing all available information with regard to the present condition of the Manhattan Company and its affiliates and the plans of the organizers of the new bank, and that he urge them to use their best efforts to arrange by November 21 for the disposition of the stock of the three State institutions; also, that he develop information as to whether the new institution might open as a clearing nonmember until it is in a position to meet the requirements of the Board fully.

Thereupon the meeting adjourned.

Peter Morill
Secretary.

Approved:

Raymond T. Magee
Chairman, Executive Committee.