

A meeting of the Federal Reserve Board was held in Washington on Thursday, December 15, 1932, at 11:10 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

Mr. Wyatt, General Counsel

Mr. Paulger, Chief, Division of Examinations.

Mr. George W. Norris, Governor of the Federal Reserve Bank of Philadelphia, was also present and submitted to the Board a statement showing that, at the close of business on December 13, 1932, the Atlantic City National Bank, the Chelsea-Second National Bank and Trust Company, the Equitable Trust Company, and the Guarantee Trust Company, which institutions are the result of absorptions and mergers during the latter part of 1931 of thirteen banking institutions in Atlantic City, New Jersey, owed the Federal Reserve Bank of Philadelphia \$5,143,812.52 and that \$3,931,987 of such borrowing was in the form of member bank collateral notes secured by paper of which approximately \$500,000 has become ineligible because the statements of the borrowers show such a small excess of quick assets over current liabilities that the individual loans have in fact become capital loans.

Governor Norris briefly outlined the circumstances leading up to the absorptions and mergers referred to, and stated that it has been necessary for the Federal reserve bank to cooperate with the banks in assisting them to work out of their unsatisfactory condition. He stated that ordinarily the Federal reserve bank would charge the notes secured by ineligible paper to the reserve accounts of the banks but that the banks have obtained advances from time to time from the Reconstruction Finance Corporation and

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the Corporation has taken the position that it will not make advances to the banks to enable them to retire borrowings from the Federal reserve bank. He also outlined the efforts of a committee, representing the member banks, to secure additional deposits in the amount of approximately \$2,000,000, and stated that the Reconstruction Finance Corporation has agreed, in the event the additional deposits are obtained, to make further advances to the member banks of between \$1,000,000 and \$2,000,000 which it is believed will be sufficient to take care of the seasonal decline of deposits during the next six months.

Governor Norris stated that the Federal Reserve Bank of Philadelphia seems to be faced with three alternatives: (1) continue to hold against member bank collateral notes paper which is technically ineligible, (2) make advances to the member banks in accordance with the provisions of section 10(b) of the Federal Reserve Act for the purpose of removing the collateral notes secured by ineligible paper or (3) require the banks to retire their notes to the extent that they are secured by ineligible collateral, which latter course would undoubtedly result in the closing of the banks. Governor Norris stated that he feels some concern as to his responsibility in this matter and would like to have the benefit of the Board's views. He also stated, as another reason for presenting the matter to the Board, that the Federal Reserve Board's examiners, at the time of the recent examination of the Philadelphia bank, called attention to the bank's holding of ineligible paper as collateral to member bank notes.

A general discussion of the situation presented by Governor Norris ensued, and it was expressed as the opinion of the members of the Board that in view of all the circumstances, including the fact that Governor Norris

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had stated that the paper referred to was eligible when accepted, it was preferable for the Federal Reserve Bank of Philadelphia to continue to carry it until it is liquidated in an orderly way, rather than resort to the procedure of retiring it by a section 10(b) advance.

There was then presented a letter dated December 14, 1932, from the Federal Reserve Agent at Philadelphia, referring to the Board's letter of October 20, 1932, requesting that the agent advise the Pennsylvania Company for Insurances on Lives and Granting Annuities that the Board had denied its request for permission to acquire the stock of a bank to be located in Ardmore, Pennsylvania; Mr. Austin's letter stating, in response to an inquiry made by the Board's Division of Examinations, that pursuant to authority granted by the board of directors of the Pennsylvania Company, \$491,000 was transferred from the surplus account of the company on November 14, 1932, and made available to certain trustees who were directed to subscribe for, and hold under a declaration of trust for the benefit of the shareholders of the Pennsylvania Company, 2,455 shares of the stock of the Main Line Trust Company of Ardmore, which company was organized and opened for business on November 15, 1932. The letter also stated that the officers of the new company, all of whom were formerly officers of the Pennsylvania Company, have discussed with the Federal reserve agent's office the subject of membership in the Federal Reserve System and that it is likely that an application will be submitted in the course of the next few weeks.

In the ensuing discussion, reference was made to the statement contained in the Board's letter of October 20, 1932, that the effect of the organization and ownership by a member bank of substantially all of the stock of a bank located beyond the limits of the city in which such bank is

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situated would be practically the same as the establishment of a branch of such bank beyond the limits of the city in which it is located and therefore would be contrary to the spirit and purpose of the provisions of section 9 of the Federal Reserve Act. The feeling was expressed by several members of the Board that the plan which had been adopted was merely a different method of accomplishing the same purpose and was subject to the same objection. They also expressed the view that since the Board's action in regard to the former proposal had been communicated to the Pennsylvania Company a proper regard for the Board's position in the matter should have impelled it to present the matter again to the Board before proceeding with the new plan.

Governor Norris stated, upon inquiry, that the Federal Reserve Bank of Philadelphia and the Federal reserve agent had notice of the proposed organization of the new bank, under the auspices of the Pennsylvania Company, before it was opened on November 15, and that he understood that the plan adopted had been formulated by its counsel, although Governor Norris personally did not know, prior to this meeting, the exact manner in which the stock of the new institution is held.

There was also discussion as to the action which should have been taken by the Federal Reserve Bank of Philadelphia and the Federal reserve agent upon learning of the proposed organization of the bank. It was expressed as the feeling of the members of the Board that the Federal reserve agent's office, particularly, should have reported the matter to the Board without delay, and that the Governor or the agent should have called to the attention of the member bank the advisability of ascertaining the Board's attitude before proceeding with the plan that was adopted. It was also

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indicated that, in view of the circumstances surrounding the organization of the new bank, the Board would not be disposed to admit it to membership.

At the conclusion of the discussion, the Federal reserve agent's letter was referred to counsel for further consideration and report to the Board.

Governor Norris then left the meeting.

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

The Board then considered and acted upon the following matters:

Telegrams dated December 14, 1932, from the Chairman of the Federal Reserve Bank of Boston and December 15, 1932, from the Chairman of the Federal Reserve Bank of Richmond, 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.

Reply to a letter dated December 8, 1932, from the Federal Reserve Agent at Atlanta transmitting copies of letters addressed to the Governor of the bank by Mr. Robert S. Parker, General Counsel, and advising of the favorable action of the executive committee, with regard to the payment of a fee of \$1,200 to Mr. Howard B. Shofner, attorney, who was retained in connection with the indebtedness of T. H. Harrison acquired by the Federal Reserve bank from the First National Bank of Murfreesboro, Tennessee, which suspended on January 25, 1932. The reply stated that the Federal Reserve Board approves the payment of the fee to Mr. Shofner.

Approved.

Reply, approved by five members of the Board on December 14, to letters dated November 10 and December 5, 1932, from the Federal Reserve

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Agent at Atlanta with regard to the continuously deficient reserves of the Erwin National Bank, Erwin, Tennessee. The reply stated that, in view of the information submitted and the agent's recommendation, the Board will take no action in the matter at this time other than to forward copies of the agent's letters to the Acting Comptroller of the Currency for the information of his office.

Approved.

Letter to the Federal Reserve Agent at St. Louis referring to Assistant Federal Reserve Agent Stewart's letter of December 6, 1932, to the Federal Reserve Agent, which the latter left with the Board on December 8, 1932, together with a letter dated December 1, 1932, from the Cashier of the Farmers and Traders Bank, Iberia, Missouri, requesting permission to withdraw from membership immediately under the voluntary notice filed by the bank under date of July 2, 1932. The reply stated that, in view of all the circumstances involved, the Federal Reserve Board waives in this case the requirement of six months notice of intention to withdraw, so as to permit the bank to withdraw from membership immediately.

Approved.

Reply to a letter dated November 17, 1932, from the President of The Chase Bank, New York City, New York, outlining the activities which it is proposed to carry on at an agency which the bank desires to establish in the Chinatown section of New York City, and requesting approval by the Board of the establishment of the agency. The reply stated that the Board grants its approval, subject to the limitations and conditions: (a) that the functions to be performed by the agency will be limited to those described in the President's letter, (b) that the agency will be established and

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opened for business within six months from this date, and (c) that the agency will be discontinued whenever the Board may deem it advisable and shall so require.

Approved.

Reply to a letter dated December 6, 1932, from the Governor of the Federal Reserve Bank of Atlanta inclosing a copy of the contract entered into between the Atlanta bank and the Republic of Cuba in accordance with the authority granted in the Board's telegram of October 20, 1932, under which credit in New York City in the amount of \$400,000 was made available to the Republic in exchange for a like amount of Cuban gold coin which is to be repurchased by the Republic in accordance with the terms of the contract. The reply noted from Governor Black's letter that in the future the tax levied by the Cuban Government upon receipts given by the Havana Agency for cable transfers sold in Havana, will be based upon the amount of the commission received by the agency rather than upon the face amount of the transfer. The reply also noted that a contract is being drawn covering an agreement by the Federal Reserve Bank of Atlanta with the Republic of Cuba to exchange circulating notes of the United States for American silver coin, and stated that it does not appear from the letter what limitations, if any, are to be placed upon the amount of such exchanges or upon the period for which the proposed contract is to be effective, and that it will be appreciated if, before the contract is executed, the Governor will advise the Board as to its more important terms and conditions, or if feasible, submit a copy of the proposed contract to the Board. The reply called attention to the fact that the powers exercised by the Federal Reserve Bank of Atlanta through its agency in Havana, which are set out in the resolution

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adopted by the Federal Reserve Board on January 27, 1927, as amended by the Board's resolution of January 4, 1929, are subject to such changes and such further rules and regulations as the Federal Reserve Board may prescribe from time to time.

Approved.

Mr. Harrison then reported to the Board that he had been advised by Mr. L. B. Williams, Deputy Chairman of the Federal Reserve Bank of Cleveland, that while he is much better he feels that it would be unwise for him to attempt to come to Washington this week and that he will arrange to be here on Tuesday of next week for a meeting with the Board.

Thereupon the meeting adjourned.

Chester Mowill
Secretary.

Approved:

Eugene H. May
Governor.