

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Monday, December 19, 1932, at 11:15 a. m.

PRESENT: Governor Meyer  
Mr. Hamlin  
Mr. James  
Mr. Magee

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

The Committee considered and acted upon the following matters:

Letter dated December 15, 1932, from the Secretary of the Federal Reserve Bank of New York, and telegram dated December 16, 1932, from the Chairman of the Federal Reserve Bank of San Francisco, both advising that at meetings of their 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.

Telegraphic reply, approved by five members of the Board on December 17, to telegrams dated December 16, 1932, from the Governor of the Federal Reserve Bank of Philadelphia, requesting authority for an advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, to the First National Bank, Darby, Pennsylvania, in the amount of \$25,000, for a period of sixty days, with interest at the rate of 5 1/2% per annum, and collateralized by unsecured promissory notes totaling \$69,505; Governor Norris stating that the bank has advised that the advance is desired to meet the withdrawal of Christmas savings deposits. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Approved.

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Telegraphic reply, approved by three members of the Board on December 17, to a telegram dated December 16, 1932, from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for the purchase from the Bank of Nutley, New Jersey, of tax notes of the Town of Nutley, in an amount not to exceed \$200,000; the reply stating that the Board authorizes the purchase with the understanding that the notes meet all requirements of Regulation E except that the net funded indebtedness of the municipality exceeds 10% of the valuation of its taxable property and that the amount of notes to be offered exceeds 25% of the total amount of outstanding warrants of the municipality.

Approved.

Report of the Committee on Salaries and Expenditures on a letter dated December 9, 1932, from Mr. J. S. Walden, Controller of the Federal Reserve Bank of Richmond, requesting authority for changes in the personnel classification plans of the head office and Charlotte branch to provide for new departments to be called the "Reconstruction Finance Corporation-Custodian Department" and for ten positions in the department at the head office and nine positions in the department at the branch; the Board's committee recommending approval.

Approved.

Letters to the Federal Reserve Agents at Philadelphia, Dallas and San Francisco, approved by three members of the Board on December 17, 1932, with regard, respectively, to the continuous reserve deficiencies of the First National Bank of Bangor, Pennsylvania, the First National Bank, Lockney, Texas, and the First Savings and Trust Company, Colfax, Washington; the letters stating in the first two cases that the Board will take no action at

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this time with regard to the deficiencies other than to forward copies of the agents' letters to the Acting Comptroller of the Currency for the information of his office, and in the latter case, that the Board will defer consideration of the matter pending the receipt of additional information.

Approved.

Letter to the Federal Reserve Agent at Chicago, approved by three members of the Board on December 17, 1932, suggesting, in view of the information disclosed in the analysis of the report of examination of the Detroit Savings Bank, Detroit, Michigan, as of September 19, 1932, that the Federal Reserve agent discuss with the commissioner of the banking department of the State of Michigan the matter of a further reduction in the rate of dividends paid by the member bank, and requesting that the agent advise the Board of the results of such discussion.

Approved.

Letter to the Federal Reserve Agent at Dallas, approved by three members of the Board on December 17, 1932, referring to the unsatisfactory condition of the Farmers State Guaranty Bank, Valiant, Oklahoma, as disclosed by the analysis of a report of examination as of September 17, 1932, and stating that, although the reason for the delay of the Banking Commissioner of Oklahoma in taking corrective action is not apparent, the Board, in accordance with the agent's recommendation, will take no action in the matter at the present time, but requests that the agent arrange for participation in the next examination, and if the condition of the institution has not been materially improved at that time, that the agent discuss with the Banking Commissioner and, if necessary, with the management of the bank, the question of obtaining the necessary financial assistance to cover all

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estimated losses, together with additional losses which may develop in assets classified as doubtful.

Approved.

Reply, approved by three members of the Board on December 17, 1932, to a letter dated December 6, 1932, from the Federal Reserve Bank of St. Louis, inclosing a notice filed by the First State Bank of Brownsville, Tennessee, under date of December 2, 1932, of its intention to withdraw from membership in the Federal Reserve System, with the request that it be permitted to withdraw immediately. The reply stated that, in view of the agent's recommendation and the reasons set out in his letter, the Board waives the usual requirement of six months notice of intention to withdraw so as to permit the member institution to withdraw from membership immediately.

Approved.

Reply, approved by three members of the Board on December 17, to a letter dated December 2, 1932, from Mr. F. G. Buckstaff, Anthony, Texas, inquiring whether the Federal Reserve Life Insurance Company of Kansas City, Kansas, is connected with a Federal reserve bank. The reply stated that the use of the words "Federal" or "reserve" in the corporate names of institutions not connected with the Federal Reserve System is misleading to the public and that the Federal Reserve Board is strongly opposed to such practice; that by the Act of May 24, 1926, private corporations were forbidden to use the words as a portion of their corporate name; that this act is not retroactive and does not apply to corporations actually engaged in such business under such name or title prior to May 26, 1926; and that the company referred to,

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according to the Board's information, has been in business since several years prior to that date and is not affected by the statute.

Approved.

The Secretary then presented a telegram just received from the Federal Reserve Agent at Kansas City, advising of the sudden death on December 18, 1932, of Mr. William Mee, one of the bank's appointees to the directorate of the Oklahoma City branch.

Noted with regret.

At this point Messrs. R. L. Austin, Federal Reserve Agent at Philadelphia, and James M. Brittain of Counsel for the Federal Reserve Bank of Philadelphia joined the meeting.

Mr. Austin stated that Governor Norris, upon returning from Washington after meeting with the Board on December 15, 1932, had advised him that the Board felt the Federal Reserve Bank of Philadelphia and, particularly the Federal reserve agent's office, was subject to criticism for not reporting promptly to the Board the facts concerning the organization of the Main Line Trust Company, Ardmore, Pennsylvania, which opened for business on November 15, 1932, and that he had come to Washington to discuss the matter with the Board.

In connection with the subject of the discussion there was presented a letter received from the Governor of the Philadelphia bank under date of December 16, 1932, referring to the organization of the Federal Reserve Bank of Philadelphia and stating that the operating side of the bank has had no connection with questions of admission of banks to membership except as they affect the extension of credit; that when Mr. C. S. Newhall, Executive Vice President of the Pennsylvania Company for Insurances on Lives and Granting

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Annuities, presented to him the matter of the holding by the Pennsylvania Company of the stock of the Main Line Trust Company, he had referred Mr. Newhall to Mr. Austin; that upon reading the Board's letter of October 20, 1932, to Mr. Austin, Governor Norris felt it was regrettable that the Board and State Banking Department of Pennsylvania should assume diametrically opposite views of the matter; that he called the Board's counsel on the telephone and inquired whether he thought it would be worth while to request a reconsideration, and had concluded from Mr. Wyatt's reply that such a request would not be worth while; that shortly after, in a casual conversation with Mr. Newhall, the latter had advised that the Pennsylvania Company had under discussion with counsel a dividend to the shareholders of the company and the purchase by the stockholders of the company of the stock of the new institution; and that the next information he received concerning the matter was when he heard read at the meeting of the Federal Reserve Board on December 15, 1932, Mr. Austin's letter of December 14.

During the discussion, Mr. Austin stated that he felt, and in his discussions with Governor Norris at the time of the receipt of the Board's letter of October 20, 1932, had stated that the attitude expressed in that letter was the correct one for the Federal Reserve Board to take in view of the purpose of the provisions of section 9 of the Federal Reserve Act. When Mr. Austin's attention was called to the fact that in his letter to the Board of December 16, 1932, he recommended that the Federal Reserve Board authorize the Pennsylvania Company to acquire and hold the capital stock of the Main Line Trust Company of Ardmore, he stated that the recommendation was made because of his feeling that it was desirable, in the light of the situation existing locally; that the control of any bank organized in Ardmore

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should be in strong hands, and on the theory that the acquisition of the stock would not be a violation of the letter of section 9, even though contrary to the spirit and purpose of the provisions of that section. His explanation of this recommendation indicated that he felt that the matter of determining the propriety of action not contrary to the express provisions of the law was one solely for determination by the Federal Reserve Board.

During the discussion it also appeared from the statements made by Mr. Austin and supplemented by Mr. Brittain, that upon receipt of the Board's letter of October 20, 1932, advising of refusal of the Pennsylvania Company's application to purchase the stock of the bank to be organized in Ardmore, Mr. Hill, Assistant Federal Reserve Agent at Philadelphia, sent a copy of the letter to Mr. Newhall, who requested Mr. Hill to discuss the matter with the company's counsel, which he did; that the company's counsel had represented that the arrangement to be effected would put the ownership of the stock of the new bank in the hands of private individuals; that the resolutions to be adopted by the company were discussed; that the question whether the proposed action would meet the requirements of the law was not raised at that time, but that following his discussions with the company's counsel Mr. Hill discussed the matter with Mr. Austin. In this connection Mr. Morrill stated that last week, immediately upon learning from a routine report received by the Board's Division of Bank Operations that a new bank had been organized in Ardmore, Mr. Siems had called Mr. Hill on the telephone and was advised that the Main Line Trust Company had been organized under the auspices of the Pennsylvania Company, that the matter had been discussed in the Federal reserve agent's office, but that it had not been reported to the Board at the time for the reason that it was thought it might be

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embarrassing to the Board.

Mr. Austin stated that he believed the Pennsylvania Company had acted in good faith in the matter and in the belief that their action would not be contrary to the position taken by the Board in its letter of October 20. It was indicated to Mr. Austin that the ownership by trustees for the benefit of shareholders of the Pennsylvania Company, of the stock of the Main Line Trust Company of Ardmore would seem to be contrary to the spirit of the provisions of section 9 of the Federal Reserve Act for the same reasons that direct holdings of the stock would be objectionable. It was also called to Mr. Austin's attention that by not raising the question with the Pennsylvania Company as to whether its proposed action would be in accordance with the Board's position, the Federal reserve agent's office may have led the bank to believe that the transaction would not be objectionable to the Board. In this connection reference was made to the Board's letter of May 18, 1931, to Mr. Newhall setting forth the understanding of the Board, arrived at following a conference with Mr. Newhall, that the Pennsylvania Company would not make any additional purchases of bank stocks without first securing the approval of the Board.

In response to an inquiry as to whether there had been discussion in the Federal reserve agent's office about reporting the matter to the Board, Mr. Austin stated that he felt the matter would be reported in due course in the report of a recent examination of the Pennsylvania Company which is now in preparation, and that he did not see that anything could have been done with regard to the action of the member bank or how the Federal reserve bank could have prevented it inasmuch as the bank was proceeding within its legal rights. It was pointed out to Mr. Austin that had the information come



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to the Board before the new bank was opened for business, something might have been done to obviate the situation which has developed and that the member bank probably would not have desired to proceed with the matter if the Board's position had been ascertained in advance.

Governor Meyer stated that it would appear from the information before the Board that, upon receipt of the advice contained in the Board's letter of October 20, the Pennsylvania Company had undertaken to devise a plan the effect of which was to circumvent the position taken by the Board by another form of holding of the stock of the new bank, and that the Federal reserve agent, in not reporting the matter promptly to the Board or raising the question with the member institution as to whether its action would be objectionable to the Board, had tacitly approved the member bank's action. He also stated that the Federal reserve agent should not in any circumstances hesitate to report a matter to the Federal Reserve Board because of any feeling that it might be a cause of embarrassment.

At the conclusion of the discussion, Mr. Austin was advised that the Board would give further consideration to the matter and would advise him in due course of the action to be taken. Thereupon Messrs. Austin and Brittain withdrew from the meeting.

Mr. Harrison stated that during the meeting Mr. Brittain had advised him that, in his opinion, the Federal reserve bank was clearly in error in not reporting the above matter to the Board and that undoubtedly the attitude of the Federal reserve bank in the matter had been influenced by its feeling that the organization of the new bank by the Pennsylvania Company was desirable.

Mr. Wyatt stated that in his telephone conversation with Governor Norris following the receipt of the Board's letter of October 20, referred

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to in the Governor's letter of December 16, Governor Norris said that he had not discussed the matter with the Pennsylvania Company; that he inquired of Mr. Wyatt as to what the Board's attitude would be with regard to trusteeing of the stock of the new bank; that he advised Governor Norris that he did not know what the position of the Board would be, but that his opinion was that the Board would object to the stock of the new institution being held in that manner for the same reasons that it objected to the direct holding of the stock by the Pennsylvania Company; and that he particularly advised Governor Norris that the Governor or the Federal reserve agent should report to the Board any such proposed action of the Pennsylvania Company.

Mr. Hamlin then presented a memorandum dated December 10, 1932, addressed to Mr. Morrill by Mr. Paulger, Chief of the Division of Examinations, stating that in the report of examination of the Continental Illinois Bank and Trust Company as of June 17, 1932, made in anticipation of action upon an application for conversion into a national bank, there was included a report covering the Continental National Company, a wholly owned affiliate, among the investments of which was a note signed by Alex F. Banks, C. F. Glore and E. M. Stevens in the amount of \$1,341,772.05, secured by shares of the Continental Illinois Bank and Trust Company with a market value as of May 31, 1932, of \$154,411, and that it is assumed that the Mr. Stevens referred to is Mr. Eugene M. Stevens, now Federal Reserve Agent at Chicago. Mr. Hamlin pointed out that the note may have been executed before Mr. Stevens became Federal reserve agent, but that as it is collateralized by bank stock the question is presented as to whether Mr. Stevens has complied with the requirements of the law that a class C director shall not be an officer, director, employee or stockholder of any bank, and that in the circumstances he be-

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lieved the matter should be investigated.

Accordingly, upon motion of Mr. Hamlin, the matter was referred to the Committee on District No. 7, (Messrs. Magee and Miller) for investigation and report to the Board.

Reports of Standing Committee dated December 15 and 16, 1932, recommending approval of the following changes in stock at Federal reserve banks:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 8.</u> Farmers National Bank in Glasgow, Kentucky.	72	72
<u>Application for ADDITIONAL Stock:</u>		
<u>District No. 7.</u> Riddell National Bank, Brazil, Indiana. (Increase in capital and surplus)	27	27
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 3.</u> Downingtwn National Bank, Downingtown, Penna. (Con. of Downingtown National Bank and Grange National Bank of Chester County at Downingtwn)	96	96
<u>District No. 7.</u> Lapeer County Bank, Inlay City, Mich. (Insolvent)	41	41
<u>District No. 9.</u> Citizens National Bank, Houghton, Mich. (V.L.Abs. by Houghton National Bank)	90	
First National Bank, Flandreau, S. Dak. (Insolvent)	<u>36</u>	126
<u>District No. 11.</u> American National Bank, Fort Towson, Oklahoma. (V.L.Terminal)	17	17
<u>District No. 12.</u> First National Bank in Coeur d'Alene, Idaho. (V.L. Abs. by American Trust Company, nonmember)	72	
First National Bank in Aurora, Oregon. (V.L.Suc. by Canby Union Bank, nonmember)	20	92
	<u>Total</u>	<u>372</u>

Approved.

Thereupon the meeting adjourned.

Approved:

Governor.

Secretary.