

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Wednesday, February 1, 1933, at 12:05 p. m.

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

Mr. Morrill, Secretary
Mr. McClelland, Assistant Secretary
Mr. Harrison, Assistant to the Governor
Mr. Paulger, Chief, Division of Examinations.

The Governor reviewed briefly the holdings in this country by the Bank of England of government securities, cash balances, and ear-marked gold, and a discussion ensued as to the effects on the American money market of purchases of United States Government securities by the Bank of England referred to in the Governor's statement. During the discussion, Mr. Wyatt, General Counsel, joined the meeting.

The Assistant Secretary reported that the Governor of the Federal Reserve Bank of Minneapolis called Governor Meyer on the telephone yesterday evening and advised him of the death yesterday of Mr. John R. Mitchell, Chairman and Federal Reserve Agent at the Minneapolis bank, and that the Governor had sent a telegram this morning to the Deputy Chairman of the bank stating that the members of the Board and its staff have learned with regret of Mr. Mitchell's death and requesting that the Deputy Chairman convey their sincere sympathy to the members of Mr. Mitchell's family and his associates at the bank.

The Committee then considered and acted upon the following matters:

Letter dated January 26, 1933, from the Secretary of the Federal Reserve Bank of New York, and telegrams dated January 27, 1933, from the Chairman of the Federal Reserve Bank of Chicago, and February 1, 1933, from

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the Chairmen of the Federal Reserve Banks of Philadelphia and St. Louis, all 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.

Letter dated January 27, 1933, from the Chairman of the Federal Reserve Bank of New York requesting that action be deferred by the Board on the recommendation that the basic salary of Mr. H. V. Roelse, Manager of the Reports Department of the Federal Reserve Bank of New York, be increased to the rate of \$10,000 per annum for the year 1933, until such time as either Governor Harrison or Mr. Case has an opportunity to discuss the matter with the members of the Board.

Action deferred accordingly.

Memorandum prepared by Mr. Paulger, Chief of the Division of Examinations, and circulated among the members of the Board under date of January 4, 1933, in accordance with the request made at the meeting of the Executive Committee on December 27, 1932, with regard to the recommendation of the Federal Reserve Agent at Chicago for the appointment of Mr. W. R. Diercks as Assistant Federal Reserve Agent at the Detroit Branch of the Federal Reserve Bank of Chicago.

The appointment of Mr. Diercks as Acting Assistant Federal Reserve Agent at the Detroit branch was approved with the understanding that he will be stationed at the branch as a representative of, and responsible to, the Federal reserve agent and not as an employee of the branch, and that as acting assistant Federal reserve agent he will serve in the other capacities referred to in the Federal reserve agent's letter of December 24, 1932, as well as in connection with the receipt and delivery of Federal reserve notes.

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Letter dated January 31, 1933, to Deputy Governor Helm of the Federal Reserve Bank of Kansas City, approved by three members of the Board, advising that, in accordance with the recommendation contained in his letter of January 19, the Federal Reserve Board approves a change in the personnel classification plan of the Omaha branch to provide for the new position of "Bookkeeper", with a salary range of from \$1,601 to \$1,900 per annum, in the loans, rediscounts and acceptances department of the branch.

Approved.

Letter dated January 31, 1933, to the Chairman of the Federal Reserve Bank of Dallas, approved by three members of the Board, advising that, in accordance with the recommendation contained in his letter of January 23, the Board has approved a change in the personnel classification plan of the Houston branch to provide for the new position of "Custodian", with a salary range of from \$1,200 to \$1,800 per annum, in the Reconstruction Finance Corporation Department of the branch.

Approved.

Letter dated January 31, 1933, to Mr. Eric Wurfel, approved by four members of the Board, stating that in accordance with the request contained in his letter of January 29 to Mr. Paulger, Chief of the Division of Examinations, the Board accepts his resignation as a Federal reserve examiner, effective at the close of business January 31, 1933.

Approved.

Telegraphic reply on January 26, 1933, approved by five members of the Board, to a telegram of that date from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for an additional

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advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, to the First National Bank and Trust Company, Port Chester, New York, in the amount of \$250,000, for a period of ninety days, with interest at the rate of 5% per annum, and on the security of customers' collateral notes and ineligible unsecured notes with a margin of at least 25%; Deputy Governor Rounds stating that the bank continues to suffer withdrawals subsequent to the closing of the First National Bank in Mamaroneck, New York. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Approved.

Telegraphic reply on January 26, 1933, approved by five members of the Board, to a telegram of that date from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for a further advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, to the Pelham National Bank, Pelham, New York, in the amount of \$50,000, for a period of ninety days, with interest at the rate of 5% per annum, and on the security of an assignment of a mortgage in the amount of \$100,000 on the bank's building; Deputy Governor Rounds stating that the advance is urgently needed pending completion of negotiations with the Reconstruction Finance Corporation for a loan in the amount of \$60,000. Deputy Governor Round's telegram also requested that the Board cancel the unused balance of \$7,000 of the authority granted in the Board's telegram of January 25, 1933, for a 10(b) advance in the amount of \$15,000 to the National bank. The reply stated that the Board authorizes the New York bank to make an additional advance, in accordance with the provisions of section

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10(b) of the Federal Reserve Act, to the Pelham National Bank, in the amount of \$43,000, for a period of ninety days, with interest at the rate of 5% per annum, and that it is understood from a telephone conversation with Deputy Governor Rounds that the unused balance of \$7,000 of the \$15,000 advance authorized in the Board's telegram of January 25, 1933, will be advanced to the bank at the same rate and for the same period in order to make a total advance of \$50,000 as requested in Mr. Rounds' telegram.

Approved.

Telegraphic reply on January 27, 1933, approved by five members of the Board, to a telegram of that date from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for a renewal in the amount of \$5,000, for a period of ninety days from January 30, 1933, with interest at the rate of 5% per annum, of the advance made by the New York bank to the Atlanta National Bank, Atlanta, New York, in accordance with the provisions of section 10(b) of the Federal Reserve Act, and under the authority of the Board's telegrams of July 30 and October 28, 1932. The reply stated that the Board authorizes the renewal of the advance subject to the terms and conditions recommended.

Approved.

Telegraphic reply on January 28, 1933, approved by five members of the Board, to a telegram of that date from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for the renewal in the reduced amount of \$22,000, for a period of ninety days from January 30, 1933, with interest at the rate of 5% per annum, of the advance made in accordance with the provisions of section 10(b) of the Federal Reserve Act,

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to the Labor National Bank, Paterson, New Jersey, under the authority of the Board's telegrams of July 28 and October 27, 1932; Deputy Governor Rounds stating that the bank is still suffering withdrawals of deposits and is not in a position to repay the advance at this time. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Approved.

Telegraphic reply, approved by five members of the Board today, to a telegram dated February 1, 1933, from Deputy Governor Rounds of the Federal Reserve Bank of New York requesting authority for a further advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, to the Larchmont National Bank and Trust Company, Larchmont, New York, in the amount of \$10,000, for a period of 75 days, with interest at the rate of 5% per annum, and on the security of miscellaneous collateral notes secured by domestic securities and mortgages, and ineligible unsecured notes with a margin of at least 25%; Deputy Governor Rounds stating that the bank continues to suffer heavy withdrawals subsequent to the closing of the First National Bank in Mamaroneck, New York, and additional funds are needed in anticipation of a further loss of deposits. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Approved.

Letter dated January 30, 1933, to the Federal Reserve Agent at San Francisco, approved by five members of the Board, advising that in accordance with the recommendation contained in his letter of January 4,

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the Federal Reserve Board has approved the application of the Ballard First National Bank, Seattle, Washington, for a reduction in its reserve requirements from 10% to 7% of demand deposits, effective February 1, 1933.

Approved.

Letter dated January 26, 1933, to the Federal Reserve Agent at Chicago, approved by four members of the Board, replying to Assistant Federal Reserve Agent Young's letter of January 14, reporting that the First National Bank, Brillion, Wisconsin, has been continuously deficient in its required reserves for six months. The reply stated that, in view of the information submitted, the Board will take no action in the matter at this time other than to forward a copy of Mr. Young's letter to the Acting Comptroller of the Currency for the information of his office.

Approved.

Reply on January 27, 1933, approved by three members of the Board, to a letter dated January 17, from the Federal Reserve Agent at St. Louis reporting continuous reserve deficiencies for six months on the part of the First National Bank, Aberdeen, Mississippi. The reply stated that, in view of the information submitted, 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 Acting Comptroller of the Currency for the information of his office.

Approved.

Replies on January 28, 1933, approved by three members of the Board, to letters from the offices of the Federal Reserve Agents at Cleveland, Richmond, Chicago, St. Louis, and Minneapolis, reporting, respectively, that the First National Bank of Cecil, Pennsylvania, the First National

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Bank of Nelson County, Lovington, Virginia, the First National Bank, Clear Lake, Iowa, the First National Bank, Huntingburg, Indiana, and the State Bank of Revere, Minnesota, have been continuously deficient in their reserves for six months or more. The replies stated in each case that the Board will take no action with regard to the reserve deficiencies at this time other than, in the cases of the national banks, to forward a copy of the letter from the agent's department to the Acting Comptroller of the Currency for the information of his office. The letter to the Federal Reserve Agent at Minneapolis requested that the agent keep the Board advised of any development in the matter of the proposed absorption of the State Bank of Revere by a new bank to be organized in Walnut Grove, Minnesota, and as to any improvement in the otherwise unsatisfactory condition of the institution as revealed by the report of examination of the institution as of September 26, 1932.

Approved.

Reply on January 31, 1933, approved by three members of the Board, to a letter dated January 19, from the Federal Reserve Agent at Cleveland, advising that the Louisa National Bank, Louisa, Kentucky, has been continuously deficient in its required reserves for a period of six months. The reply stated that, in view of the information submitted, 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 Acting Comptroller of the Currency for the information of his office.

Approved.

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Reply on January 27, 1933, approved by three members of the Board, to a letter dated December 6, 1932, from the Federal Reserve Agent at New York, with regard to the consolidation as of August 16, 1932, of the Farmers National Bank with the Citizens Trust Company, both of Adams, New York, under the charter of the latter institution. The reply stated that it is apparent from the information submitted that the action of the member trust company has resulted in no material change in the general character of its assets or 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 the Board, therefore, will take no action affecting the membership of the trust company by reason of the transaction.

Approved.

Letter dated January 31, 1933, to the Federal Reserve Agent at New York, approved by three members of the Board, referring to the analyses of reports of examination of the M & T Trust Company and the Marine Trust Company, both of Buffalo, New York, as of May 20, 1932, and June 24, 1932, respectively, which disclose a most unsatisfactory condition in both institutions. The letter stated that, in view of the delay in the submission of these analyses and the understanding that new examinations of the institutions were commenced on December 9, 1932, and December 14, 1932, respectively, no comment will be made at this time on the many features of the condition of the institutions which were subject to criticism, but that it will be appreciated if the agent will submit the analyses of the reports of the current examinations as promptly as possible,

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together with detailed statements showing the comparative status of the features of the condition of the institutions which were criticized in the reports of their last previous examinations and his comments on the progress made by the companies in correcting or improving such features. The letter also suggested that the agent include in the analyses of reports of examination additional information with regard to the companies' affiliated or subsidiary corporations.

Approved.

Reply on January 31, 1933, approved by three members of the Board, to a letter dated December 19, 1932, from the Federal Reserve Agent at New York, transmitting information with regard to the absorption by the Chemical Bank and Trust Company, New York, New York, of its affiliate, the Chemical Securities Corporation. The reply stated that it is assumed from the information submitted that the proposed absorption will not result in any change in the corporate existence of the Chemical Bank and Trust Company which will affect its status as a member of the Federal Reserve System, and requested additional information regarding this and other matters involved in the transaction, including certain investments taken over from the Securities Corporation.

Approved.

Letter dated January 28, 1933, to the Federal Reserve Agent at Cleveland, approved by three members of the Board, with regard to the transaction whereby the First-City Trust and Savings Bank of Akron, Ohio, purchased all the assets and assumed all the liabilities of the Central-Depositors Bank and Trust Company of Akron as of October 18, 1931, and with regard to

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the purchase by the consolidated institution of the assets and the assumption of the liabilities of the First-City Savings Bank of Barberton, Ohio, as of October 31, 1932. The letter stated that, in accordance with the recommendation of the agent's office, the Board will defer, until after another examination, consideration of the question whether either of the transactions referred to involved a material change in the general character of the assets of the continuing member institution or a broadening in the scope of its functions within the meaning of the general condition of membership to which it is subject, and requested that the agent participate in the next examination and furnish the Board with a copy of the analysis of the report thereof, together with certain additional information and a recommendation as to the action to be taken in the matter.

Approved.

Letter dated January 28, 1933, to the Federal Reserve Agent at Chicago, approved by three members of the Board, replying to Assistant Federal Reserve Agent Young's letter of November 28, 1932, advising that the Citizens State Bank, Sheboygan, Wisconsin, had outstanding at that time a total of \$1,561,435 of mortgages sold to local investors and that the bank has no contingent liability of any kind in connection with these mortgages. The reply stated that the Board does not look with favor upon commercial banking institutions engaging in the business of selling mortgage loans to the public, either directly or through affiliated corporations, even though such mortgages are sold by the bank without recourse; that although a bank may be under no legal liability on mortgages which it has sold, this fact may not be clearly understood by the investors

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and in the event of default on any such mortgages the demand of the investors for reimbursement may be embarrassing to the bank and refusal to reimburse investors who may make such demand might easily result in loss of confidence in the bank and ultimately in loss to its depositors; and that in the circumstances it is suggested that the agent, in his contacts with member banks engaged in this type of business, point out the attitude of the Board in an attempt to discourage the practice of selling to the public mortgage loans or participations therein. In response to the question raised by Mr. Young as to whether the holding by the Citizens Securities Company, an affiliate of the member bank, of the stock of two nonmember banks is a violation of the provisions of the Board's Regulation H with reference to the purchase of bank stocks by a member without the Board's permission, the reply stated that when the Citizens State Bank was admitted to membership a condition requiring the Board's permission before it purchased any bank stock was not prescribed and that such a condition, therefore, is not applicable in this case. The reply also stated that it appears from the Board's records that at the time of admission of the member bank, it did not hold any corporate stocks and that the Board feels the investment in corporate stocks by the Citizens State Bank without the approval of the Board would be a change in the character of the assets or scope of the functions of the institution contrary to the requirements of the condition that, except with the approval of the Federal Reserve Board, there shall be no change in the general character of the assets of, or broadening in the functions exercised by the member bank at the time of its admission such as will tend to affect materially the standard maintained

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and required as a condition of membership, and requested that if 497 shares of the stock of a furniture company, which the bank took over through a loan made to one of its customers, has not been disposed of at the time of the next examination, the agent ascertain and advise the Board what disposition the bank proposes to make of the stock.

Approved.

Letter dated January 31, 1933, to the Federal reserve agents at all Federal reserve banks, approved by three members of the Board, referring to a discussion at the Federal Reserve Agents' Conference in November, 1932, during which attention was called to the Board's letter of June 19, 1931 (X-6914), which required that at the time of admission of a State bank or trust company it should be free from all known losses or depreciation so that its statement would reflect as nearly as possible the value of its assets, and several of the Federal reserve agents stated that on account of bond depreciation and other unsatisfactory conditions, very few nonmember banks could qualify for membership at the present time. The letter to the Federal reserve agents called attention to the Board's letter of March 9, 1932 (X-7113), transmitting a copy of one addressed to the Federal Reserve Agent at Richmond on March 7, 1932, with regard to a change in the Board's policy in connection with depreciation in the investment accounts of State banks and trust companies applying for membership in the Federal Reserve System.

Approved.

Reply on January 26, 1933, approved by four members of the Board, to a letter dated December 30, 1932, from the Federal Reserve Agent at

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Richmond, inclosing an analysis of the report of examination of the Peoples National Bank, Parkersburg, West Virginia, as of November 15, 1932, and recommending that the Board continue to withhold the granting of permission to the bank to exercise full fiduciary powers until a subsequent examination shall indicate that the bank can overcome its present difficulties. The reply stated that the Board, in accordance with the agent's recommendation and that of the Acting Comptroller of the Currency, will take no action in the matter at this time. The reply also stated that the Board will be pleased to consider again the application of the national bank when, in the opinion of the Federal Reserve Agent, it has effected a correction of the unsatisfactory features of its condition.

Approved.

Letter dated January 31, 1933, to the Federal Reserve Agent at Richmond, approved by three members of the Board, advising that the Federal Reserve Board has considered the application of the Union National Bank, Westminster, Maryland, for permission to exercise fiduciary powers, but in view of the condition of the institution, and the recommendations of the executive committee of the Richmond bank and of the Acting Comptroller of the Currency, the Board is unwilling to approve the application. The letter also stated that when the national bank has effected material improvement in the unsatisfactory features of its condition, the Board will be glad to consider another application for permission to exercise fiduciary powers.

Approved.

Reply on January 30, 1933, approved by three members of the Board, to a letter dated January 17 from the Chairman of the Federal Reserve Bank

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of Richmond stating that if the Board does not interpose any objection, it is his purpose to reprint on a separate sheet and inclose in the envelopes containing the next review of business conditions issued by his bank, an article by Lord Macaulay, which appeared in the Edinburgh Review of January, 1830. The reply stated that the quotation has had considerable circulation in mimeographed form and the Board does not believe it would be worth while for the bank to publish it.

Approved.

Reply on January 26, 1933, approved by four members of the Board, to a letter dated January 12, from the Federal Reserve Agent at Cleveland with which he transmitted a newly executed bond covering his service as Federal Reserve Agent. The reply stated that the reason for the execution of the new bond at this time is not apparent; that the bond executed by Mr. DeCamp on January 18, 1930, was executed less than four years ago and the execution of a new bond is not required at this time; that the provisions of the old bond and the liability of the principal and surety thereon are still in effect; and that unless there is some reason of which the Board is not advised for the execution of the new bond, it is suggested that it be returned to the local representative of the surety with the advice that inasmuch as the bond dated January 18, 1930, is still effective, the execution of a new bond at this time is not necessary.

Approved.

Reply on January 30, 1933, approved by four members of the Board, to a letter dated January 9 from Mr. W. Randolph Burgess, Secretary of the Open Market Policy Conference, transmitting a tentative draft of the minutes

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of the meeting of the Open Market Policy Conference held on January 4 and 5, 1933. The reply suggested a number of changes for incorporation in the final draft of the minutes.

Approved.

Reply on January 27, 1933, approved by three members of the Board, to a letter dated December 27, 1932, from the Acting Comptroller of the Currency, stating that some confusion exists in the minds of national bank examiners with reference to the rulings of the Board regarding the collective investment of trust funds by national banks, and that he would appreciate an interpretation of the rulings as the Board desires the examiners to enforce them. The reply referred to the ruling of August 9, 1928, with regard to the collective investment of trust funds where the amounts involved are too small to be invested separately to advantage, which ruling was submitted to and approved by the office of the Comptroller of the Currency; and to the ruling of October 16, 1929, contained in a letter addressed to the Comptroller of the Currency in response to a request for a ruling on the question whether a national bank may deliver all of its real estate bonds and mortgages to its trust department to be held in a revolving pool in trust for the commercial department of the bank and for the various trusts administered in the trust department of the same bank to which participation certificates would be issued as investments for trust funds, the Comptroller of the Currency having been furnished with a copy of an opinion of the Board's counsel containing detailed information regarding the legal and practical considerations upon which the ruling was based and summarizing previous rulings made by the Board regarding the investment of

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trust funds where the amounts were too small to be invested separately to advantage. The letter also inclosed a concise statement, suitable for distribution to national bank examiners, describing the Board's rulings affecting the collective investment of trust funds by national banks. In response to the statement contained in the Acting Comptroller's letter with regard to the provisions of Regulation F that, where the trust instrument does not specify the character or class of investments to be made and does not expressly vest in the bank a discretion in the matter of investments, trusts funds shall be invested in securities in which corporate or individual fiduciaries in the state in which the bank is located may lawfully invest, and that the laws of at least one state specifically authorize corporate fiduciaries organized under the laws of the state to invest trust funds in mortgage pools, the reply referred to the Board's letter of December 7, 1932, and to Section VII of Regulation F which provides in part that "the securities and investments held in each trust shall be kept separate and distinct from the securities owned by the bank and separate and distinct one from another". The reply also noted with approval from the Acting Comptroller's letter that all national bank examiners have been instructed to discourage the practice by national banks of issuing participation certificates in mortgage loans and selling them to their customers either directly or through affiliated corporations.

Approved.

Reports of Standing Committee dated January 27, 1933, recommending approval of the following changes in stock at Federal reserve bank:

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<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 11.</u>		
Public National Bank & Trust Company, Houston, Texas. (Insolvent)	675	
First National Bank, Kerens, Texas. (V.L.Suc. by First National Bank of Kerens, Texas.)	60	
First National Bank, Pickton, Texas. (V.L.Abs. by First National Bank of Winnsboro, Texas.)	<u>18</u>	753

Approved.

Reports of Standing Committee dated January 26 and February 1, 1933,

recommending approval of the following Clayton Act applications:

Mr. William C. Henning, for permission to serve at the same time as director of the Boatmen's National Bank of St. Louis, Missouri, and as director of the First National Bank of Wellston, Missouri.

Mr. E. Kent Swift, for permission to serve at the same time as director of the Second National Bank of Boston, Massachusetts, and as director of the Whitinsville National Bank of Whitinsville, Massachusetts.

Approved.

Thereupon the meeting adjourned.

Oliver Howell
Secretary.

Approved:

Ernest C. Ferguson
Governor.