

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Thursday, April 27, 1933, at 12:15 p.m.

PRESENT: Mr. Meyer, Governor
Mr. Hamlin
Mr. Miller
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 Committee considered and acted upon the following matters:

Telegram dated April 26, 1933, from Mr. McClure, Federal Reserve Agent at Kansas City, stating that the board of directors, at its meeting on that date, made no change in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Reply on April 26, 1933, approved by four members of the Board, to a letter dated April 20 from Mr. Newton, Chairman of the Federal Reserve Bank of Atlanta, stating that, subject to the approval of the Federal Reserve Board, the board of directors had authorized the appropriation by the head office and branches of the bank of a total of \$1,000 to the local chapters of the American Institute of Banking for educational purposes during the year 1933. The reply stated that the Board has approved the appropriation.

Approved.

Reply on April 26, 1933, approved by four members of the Board, to a letter dated April 20 from Mr. Newton, Chairman of the Federal Reserve Bank of Atlanta, advising of the action taken by the board of directors in

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fixing vacation periods for the officers and employees of the head office, branches, and agencies of the bank during the year 1933. The reply noted without objection the action of the directors in this regard.

Approved.

Telegraphic reply to a telegram dated April 24, 1933, from Assistant Federal Reserve Agent Young at Chicago, requesting approval of the designation of Mr. C. T. Laibly, employed in the credit department of the head office, and Mr. C. H. F. Anderson, employed in the credit department of the Detroit branch, to assist examiners at the head office and Detroit branch, respectively, in the examination of member and nonmember banks; it being intended that these employees will not be assigned permanently to the Federal Reserve Agent's department but will be used in examination work when available. The reply stated that the Board approves the designations.

Approved.

Letter to Mr. Newton, Federal Reserve Agent at Atlanta, referring to his reply of April 19 to the Board's letter of April 4 with regard to the infrequent attendance of certain directors of branches of the Federal Reserve Bank of Atlanta at meetings of the boards of directors of their respective branches; Mr. Newton stating that Mr. John G. Farley was elected a director of the Birmingham branch on September 9, 1932, and has attended each directors' meeting since that date, and suggesting that Mr. E. F. Allison, director of the Birmingham branch, and Mr. P. H. Saunders, director of the New Orleans branch, be approached on the matter of their irregular attendance. The reply stated that, in accordance with the agent's suggestion, the Board will appreciate his discussing with Messrs. Allison

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and Saunders the matter of their apparent inability to attend regularly the meetings of the branch boards of directors, and that, if they feel that they will not be able to participate actively in the performance of the duties of the directorates of the respective branches, it would be desirable for them to tender their resignations to become effective when the Board appoints their successors.

Approved.

Reply to a letter dated April 13, 1933, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, quoting a letter received by him from Mr. James Inglis, one of the Board's appointees to the directorate of the Detroit branch, in which he raises a question as to whether his acceptance of the position of chairman of the newly organized National Bank of Detroit makes him ineligible to serve as a director of the branch. The reply noted that, while Mr. Inglis at present is giving all his time to the affairs of the national bank, he has retained his official connection with the American Blower Corporation and American Radiator Company, and that the agent would dislike very much to see his membership on the branch board discontinued, and stated that, in view of all the circumstances and the changes which are taking place in the banking situation in the Detroit territory, the Board does not feel that Mr. Inglis should resign as a director of the branch and it is requested that the agent advise him accordingly.

Approved.

Telegram to Mr. Wood, Federal Reserve Agent at St. Louis, referring to the application of the Water Tower Bank, St. Louis, Missouri, for permission to withdraw immediately from membership in the Federal Reserve

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System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Water Tower Bank, the Federal reserve bank is authorized to cancel such stock and make a refund thereon.

Approved.

Reply to a letter dated April 18, 1933, from Mr. McClure, Federal Reserve Agent at Kansas City, stating that two State banks, which are contemplating making application for membership in the Federal Reserve System, have inquired as to the amount which the Board would require to be charged off on their deposit balances with the Fidelity National Bank and Trust Company, Kansas City, Missouri, which is in the hands of a conservator; Mr. McClure suggesting that it is believed that the elimination of 30% of such deposits will be a reasonable requirement in the case of any applicant for membership whose condition is such that it could, if necessary, absorb some further loss in this connection. The reply stated that the Board is not in sufficiently close touch with the situation to express an opinion as to whether the requirement of a 30% charge-off would be reasonable and proper; that the matter has been discussed informally with the examiner who is handling the reorganization of the bank in the office of the Comptroller of the Currency and his views in the matter coincide with those expressed by Mr. McClure; and that, in view of this fact and in the absence of further developments which may make a change desirable, the Board will be disposed to approve a recommendation from the membership committee of the Federal reserve bank that, before being admitted to membership in the System, any

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State bank having a deposit balance with the Fidelity National Bank and Trust Company of Kansas City be required to charge off 30% of such balance.

Approved.

Letter to Mr. Walsh, Federal Reserve Agent at Dallas, stating that the Board has reviewed the condition of the Commercial State Bank of Nacogdoches, Texas, as reflected in the analysis of report of examination as of February 11, 1933, and has noted the information submitted with the agent's letter of April 3 from which it appears that the transaction by which the member bank purchased all the assets and assumed all the liabilities, except those to stockholders, of the Appleby State Bank, Appleby, Texas, a nonmember, resulted in no material change in the general character of the assets of, or broadening in the scope of the functions exercised by, the member bank within the meaning of the general condition under which it was admitted to membership in the Federal Reserve System, and that, accordingly, the Board will take no action affecting the membership of the Commercial State Bank by reason of the transaction.

Approved.

Letter to Mr. Homer P. Clark, Deputy Chairman of the Federal Reserve Bank of Minneapolis, inclosing, for the information of the board of directors of the bank, a copy of a report of a special study of the fiscal agency department of the Federal Reserve Bank of Minneapolis made by the Board's examiners in conjunction with the regular examination of that institution as of March 22, 1933, and stating that the Board will be pleased to be advised whether the recommendations made by the examiner in regard to auditing functions in connection with operations of the fiscal agency

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department had been adopted, and as to what action has been taken in regard to improving the forms and system of handling the operations of the fiscal agency department, which matter was discussed by the examiner with the officers of the Federal reserve bank at the time of the recent examination.

Approved.

Letter to Mr. Walsh, Federal Reserve Agent at Dallas, inclosing a copy of a report of a special study of the fiscal agency operations of the Federal Reserve Bank of Dallas, which was made in conjunction with the examination of the bank and its branches as of February 21, 1933; calling attention to the examiner's comments concerning subscriptions for Government securities by certain employees of the Federal Reserve Bank of Dallas; and stating that the Board has noted that at an executive session of the board of directors of the bank on April 10, 1933, Governor McKinney discussed with the directors the comments and criticisms regarding this matter which were made by the Board's examiner in the regular report of examination of the bank, and that, upon the Governor's assurance that there will be no repetition of the transactions which were criticized, given after a discussion of the matter with Mr. R. O. Webb, Assistant Cashier in charge of the Fiscal Agency Department, the members of the board of directors felt that no action on their part was required. The letter also stated that the Board feels very strongly that, as stated in its circular letter of April 12, 1933 (X-7407), subscriptions for Government securities filed with a Federal reserve bank by its directors, officers or employees should be handled in strict accordance with Treasury instructions and in no respect receive more favorable treatment than is accorded other subscriptions of the same class, and that the Board desires, therefore, that the detailed information contained in the inclosed report be brought to the special

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attention of the board of directors of the bank and the Federal Reserve Board advised as to the results of the further consideration given by the directors to this information. The letter further stated that it is understood from the comments made in the committee report transmitted to the Federal Reserve Board by the Federal reserve agent in his letter of April 13, 1933, that the various recommendations with respect to the operations of the fiscal agency department of the bank and the auditing thereof, as set out in the inclosed report, have been adopted.

Approved.

Mr. Morrill stated that a memorandum has been received from the office of the Comptroller of the Currency recommending approval of an application, submitted by the Montgomery County National Bank, Rockville, Maryland, in connection with a plan to reorganize the bank so that it may be licensed to reopen for business, for permission to reduce its common stock from \$100,000 to \$50,000 and immediately thereafter to increase the common stock to \$100,000 by the sale of new stock of \$50 par value at \$100 per share, the released capital and premium on the new stock to be used to charge off losses and depreciation; that under the plan approximately 80% of the depositors have signed an agreement which provides that all of the depositors in the bank will waive 15% of their deposits for which they are to receive an equivalent amount of preferred stock; that there are certain differences between the depositors' agreement and the amended articles of association, under which it is proposed that the bank shall operate, which are quite likely to result in controversy and litigation and thus endanger the safety of the bank; that the matter has been discussed with the office

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of the Comptroller of the Currency which has indicated to the bank that it will approve the plan of reorganization; and that, therefore, the question is presented to the Board as to whether it will approve the application for permission to reduce the common stock of the bank, as submitted, or whether it will require the adjustment of the differences between the depositors' agreement and the proposed articles of association before approving the reduction.

Mr. Wyatt stated that the application presents a question of policy as to how much responsibility the Federal Reserve Board will accept in approving capital reductions of national banks; that, if the policy is followed of passing only upon the questions involved in a capital reduction, action approving the reduction could be taken without considering any other questions presented by the transaction of which the capital reduction may be a part; but that, if the Board feels that it must assume responsibility for approving the entire transaction, it cannot consistently take action without passing upon all the questions involved therein. He also stated that he and Mr. Paulger spent considerable time with the representatives of the Montgomery County National Bank discussing the proposed reorganization and that they feel that it would be very difficult, and would require some time, to obtain a new agreement from the depositors and that, if there is any further delay in completing the reorganization, confidence in the bank may be lost and it may be forced to liquidate.

The matter was discussed at some length and some of the members of the Board indicated the feeling that before acting upon a proposed reduction in capital stock, the Board should take into consideration the important aspects of the plan of which the reduction is a part, although the legal responsi-

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bility of the Board relates only to the capital stock reduction, as it seemed probable that the Board's approval of the capital stock reduction involved in such a plan would be interpreted as approval of the plan, especially where as in this case the reopening of the bank is dependent upon the Board's action in addition to that of the Comptroller. Thereupon, the Executive Committee requested that a letter to the Acting Comptroller of the Currency be prepared referring to the objectionable features of the proposed plan of reorganization of the national bank and stating that the Board is willing to approve the reduction upon the recommendation of the Comptroller, when the situation as to the matters involved in the objections has been clarified satisfactorily.

Mr. Williams, Federal Reserve Agent at Cleveland, joined the meeting and reported that the run on the Cleveland Trust Company continued with less activity for a short period this morning and had practically ceased later in the morning, and that the banking situation in Cleveland was almost normal.

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

<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 5.</u> Commercial National Bank, Washington, D. C. (Insolvent)	840	840
<u>District No. 7.</u> Atlantic National Bank, Atlantic, Iowa. (V.L.Suc. by Atlantic State Bank, nonmember)	90	90
<u>District No. 11.</u> First National Bank, Orange, Texas. (V.L.Suc. by First National Bank in Orange.)	180	
First National Bank, Rule, Texas. (V.L.Abs. by Farmers State Bank of Rule, Texas, nonmember)	<u>27</u>	207

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Applications for SURRENDER of Stock: (Cont'd)
District No. 12.

Shares

First National Bank, Mullan, Idaho. (V.L.Abs. by
 Wallace Bank and Trust Company, Wallace,
 Idaho, nonmember.)

18	18
<u>Total</u>	<u>1,155</u>

Approved.

Thereupon the meeting adjourned.

Peter Moulton
 Secretary.

Approved:

C. J. [Signature]
 Governor.