

A meeting of the Federal Reserve Board was held in Washington on Monday, June 5, 1933, at 11:30 a. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. O'Connor

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. McClelland, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Paulger, Chief, Division of Examinations
Mr. Wingfield, Assistant Counsel
Mr. Siems, Federal Reserve Examiner.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on May 1, 4, and 6, 1933, were approved and the actions recorded therein were ratified, Messrs. Black and O'Connor not voting.

The Board then considered and acted upon the following matters:

Telegraphic reply on June 1, 1933, approved by four members of the Board, to a telegram of that date from Mr. Newton, Chairman of the Federal Reserve Bank of San Francisco, stating that the board of directors, at its meeting on that date, voted to reduce the rediscount rate of the bank to 3%, effective June 2, 1933. The reply stated that the Federal Reserve Board approves for the Federal Reserve Bank of San Francisco a rediscount rate of 3%, effective June 2.

Approved.

Letter dated June 1, 1933, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, 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.

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Memorandum dated May 31, 1933, from the Committee on Salaries and Expenditures with regard to a letter dated May 16, 1933, from Deputy Governor Gilbert of the Federal Reserve Bank of New York requesting approval of changes in the personnel classification plan of the bank to provide for the establishment of a loan collection division in the credit department of the bank and for 24 new positions in that department, as well as for the new position of "bank messenger" in the Reconstruction Finance Corporation Unit of the Government Bond and Safekeeping Department; the Board's Committee recommending approval.

Approved.

Telegram dated June 2, 1933, to Mr. Williams, Federal Reserve Agent at Cleveland, approved by five members of the Board, stating that the Board approves the application of the Bourbon Agricultural Bank and Trust Company, Paris, Kentucky, for membership in the Federal Reserve System and for 240 shares of stock of the Federal Reserve Bank of Cleveland, subject to the conditions prescribed in the telegram.

Approved.

Telegrams dated June 3, 1933, to the respective Federal reserve agents, approved by four members of the Board, stating that the Board approves the applications of the following State banking institutions for membership in the Federal Reserve System and for Federal reserve bank stock, subject to the conditions prescribed in the individual telegrams:

<u>Name of Bank</u>	<u>Number of Shares</u>	<u>Federal Reserve Bank</u>
Marion Junction State Bank, Marion Junction, Ala.	24	Atlanta
Citizens Banking Company, Anderson, Indiana.	270	Chicago

Approved.

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Telegram dated June 3, 1933, to Mr. Peyton, Federal Reserve Agent at Minneapolis, approved by four members of the Board, with regard to the application for membership in the Federal Reserve System filed by the State Bank of Terry, Montana. The telegram stated that, although the bank may increase its capital stock to \$25,000 within five years after its admission to membership, as recommended by the executive committee of the Federal Reserve Bank of Minneapolis, its large ratio of deposits to capital would warrant a much larger increase in its capital stock; that it is felt, therefore, that a condition should be prescribed requiring the bank to increase its capital stock to \$50,000 within 90 days after its admission to membership, which increase might be in the form of a stock dividend from surplus account; and that the agent is requested to take the matter up with the bank and advise the Board as to its attitude toward such capital increase, submitting his recommendation in the premises. The telegram also stated that it appears from the laws of the State of Montana on file with the Board that the capital stock of a commercial bank in Montana must be not less than \$25,000, and suggested that the agent request counsel to consider whether, under the laws of Montana, the subject bank is required to increase its capital to at least that amount.

Approved.

Telegraphic reply on June 3, 1933, approved by four members of the Board, to a letter dated May 27 from Mr. McClure, Federal Reserve Agent at Kansas City, inquiring whether a State bank whose active managing officers own and control a corporation doing a real estate mortgage loan business may be admitted to membership subject to the regular condition of member-

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ship prescribed by the Board, with regard to issuing or selling evidences of indebtedness representing real estate loans or participations therein, without such mortgage loan company being disposed of by its officers. The reply stated that the Board does not have sufficient detailed information with regard to the extent of the association of the business of the bank and of the mortgage loan company to rule definitely on this case; but that the condition referred to contemplates that a bank admitted to membership subject to such condition should not itself engage in the business described therein or engage in such business through any affiliation under such circumstances that the bank would have either legal or moral responsibility for the transaction of such business or under circumstances which would lead the bank's customers to believe that it has any such legal or moral responsibility. The reply also stated that if the bank and mortgage company are managed by the same officers and such corporations have similar names, or if the two institutions are operating in the same quarters, this, among other things, would strongly indicate an affiliation between the institutions within the meaning of condition numbered twelve.

Approved.

Letter dated June 3, 1933, to Mr. Curtiss, Federal Reserve Agent at Boston, approved by five members of the Board, stating that, in view of the conditions disclosed by the analysis of the report of examination of the Naumkeag Trust Company, Salem, Massachusetts as of January 11, 1933, it is difficult to see how the trust company would be justified in paying any dividends, and that it will be appreciated if the agent will ascertain and advise the Board what action the trust company has taken or proposes to take

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in compliance with the recommendation of the State Commissioner of Banks that the disbursement of dividends be discontinued until further notice. The letter also requested advice of any correction of, or improvement in, the criticized features of the bank's condition which may be effected from time to time.

Approved.

Reply on June 3, 1933, approved by five members of the Board, to a letter dated March 31, 1933, from Mr. Wood, Federal Reserve Agent at St. Louis, inclosing a copy of a letter dated February 27, 1933, from the Northwestern Trust Company of St. Louis, Missouri, relative to the condition of that institution as reflected in the report of its examination as of September 21, 1932, and the organization and powers of its affiliate, the Northwestern Securities Corporation. The reply stated that it is noted from the information submitted that one of the purposes for which the Northwestern Securities Corporation was organized was to engage in the business of guaranteeing the payment of real estate securities and issuing participations therein; that the Board's records with respect to the admission of the Northwestern Trust Company to membership in the Federal Reserve System do not contain any information that the institution at the time of its admission to membership was engaged in the business of guaranteeing the payment of real estate securities and issuing participations therein, either directly or through an affiliated corporation; and that the Board feels that if the Northwestern Securities Corporation were to engage in the type of business referred to, without obtaining the Board's approval, it would be contrary to the spirit and purpose of the general condition under which the trust company was admitted

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to membership, if not an actual violation thereof. The reply also stated that, as it appears that the affiliate has not and is not now engaged in the practice of issuing and selling real estate securities or participations therein, the Board, upon that understanding, will take no action in the matter, although it will be appreciated if the agent will acquaint the trust company with the Board's views in the premises, emphasizing that, except with the Board's approval, neither it nor its affiliate should engage in any type of business which was not being practiced at the time of the trust company's admission to membership.

Approved.

Letter dated June 2, 1933, to the Comptroller of the Currency, approved by five members of the Board, replying to his memorandum of May 25 recommending approval of the application of the Merchants National Bank and Trust Company, Poughkeepsie, New York, for permission to reduce its capital stock from \$175,000 to \$100,000, to change the par value of its shares of stock from \$100 to \$50 each, and immediately thereafter to increase its capital stock from \$100,000 to \$250,000 by selling 3,000 shares of new stock of a par value of \$50 each for \$100 a share, the released capital of \$75,000 and the premium on the new stock to be credited to undivided profits and used in charging off estimated losses of \$187,771.83 and depreciation of \$124,539.84 on securities other than those in the four highest grades, as shown in a report of examination of the bank as of January 7, 1933. The reply advised that the Federal Reserve Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply. The reply also stated that it is apparent that the corrections

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to be effected through the proposed capital stock adjustment, together with the improvement in securities values which has taken place since the date of the last examination, will materially improve the condition of the bank and that such adjustment is therefore desirable inasmuch as the bank has already been licensed to reopen, but, in view of the bond depreciation on issues in the four highest grades which will not be eliminated in the proposed adjustment, and the large volume of slow and doubtful assets remaining in the institution on the basis of the report of its examination as of January 7, 1933, it appears also that the condition of the bank will still be unsatisfactory, and it is assumed that this feature of the case is receiving the consideration of the Comptroller's office and that an effort will be made to remedy such condition.

Approved.

Reply on June 2, 1933, approved by five members of the Board, to a letter dated May 25 from the Comptroller of the Currency, referring to the Board's recent disapproval of the proposed reduction in the capital stock of the Patapsco National Bank of Ellicott City, Maryland, and requesting that, for the reasons stated in the letter, the Board reconsider its decision. The reply stated that the Board has given careful consideration to the Comptroller's letter, but does not feel that it can properly approve the reduction under the plan submitted, and inclosed a memorandum prepared by Mr. Wingfield, Assistant Counsel of the Board, setting forth in detail the considerations which influenced the Board's decision in the matter.

Approved.

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Letter dated June 3, 1933, to Mr. Hoxton, Federal Reserve Agent at Richmond, approved by four members of the Board, advising that the Federal Reserve Board has approved the application of the Planters Bank and Trust Company, Farmville, Virginia, for permission to exercise the fiduciary powers authorized under its charter and the laws of the State of Virginia, provided that, prior to the exercise of any of these powers, the board of directors of the trust company shall adopt an appropriate resolution accepting the conditions set forth in the letter, and shall transmit to the Board, through the Federal reserve agent, a copy of such resolution.

Approved.

Reply on June 3, 1933, approved by five members of the Board, to a letter dated May 18 from Mr. Hoxton, Federal Reserve Agent at Richmond, inquiring whether member banks which have not been licensed by the Secretary of the Treasury to reopen may participate in elections of Class A and B directors of Federal reserve banks. The reply stated that it is the opinion of the Federal Reserve Board that member banks, which have not been licensed by the Secretary of the Treasury to reopen for the performance of usual banking functions, and which have not been placed in liquidation or in the hands of receivers or conservators or State officials having similar authority, are entitled to nominate candidates for Class A and B directors of Federal reserve banks and to vote in the election of such directors, but that the Board agrees with the agent's view that banks in the hands of conservators, or of State officials having similar authority, are not entitled to nominate candidates for Class A and B directors or to vote in the election of such directors.

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Approved, together with a circular letter dated June 3, 1933, to all other Federal reserve agents, also approved by five members of the Board, inclosing a copy of the letter to Mr. Hoxton.

Letter dated June 2, 1933, to Mr. Newton, Federal Reserve Agent at Atlanta, approved by five members of the Board, referring to his letters of April 19 and 29, and May 15, 1933, in reply to the Board's letter of April 4 with regard to the report of examination of the Federal Reserve Bank of Atlanta as of November 12, 1932, and stating that the Board is pleased to note that the matters mentioned in its letter have had the attention of the board of directors and officers of the Federal Reserve Bank of Atlanta. The letter also noted that a committee of directors of the Atlanta bank is considering the necessity for the continuance of the Savannah Agency and stated that the Board will be interested in receiving the recommendation of the directors. In connection with the agent's statement relative to the safekeeping of securities for member banks located in cities in which the head office or a branch is located, the letter stated that, as this question has arisen at other reserve banks and as it involves a question of System policy, the Board is considering submitting the matter to the Chairman of the Governors' Conference with the request that he refer it to a committee for study and report at an early meeting of the Conference. The letter also noted the agent's comment that the directors are of the opinion that the safekeeping of securities for receivers of closed banks is a proper service for such banks, and stated that it may also be advisable to submit this question to the committee above referred to, and that the Board will be interested in receiving any further comments which the agent might care to make with regard to these questions

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of safekeeping.

Approved.

Mr. Morrill then stated that the Federal Reserve Board has received from the Federal Reserve Agent at St. Louis, with his favorable recommendation and that of the executive committee of the bank, applications for membership in the Federal Reserve System filed by the Bankers Commercial Trust Company, the Peoples Bank, and the Union Bank, all of Little Rock, Arkansas, which were organized for the purpose of taking over certain assets and acquiring certain of the liabilities of the Bankers Trust Company, the Peoples Trust Company, and the Union Trust Company, respectively, formerly member banks of Little Rock, Arkansas, which were not licensed by the Secretary of the Treasury to reopen.

The new banks were organized under a plan approved by the State banking authorities which provided that the old banks should obtain loans from the Reconstruction Finance Corporation on the security of certain assets of the old institutions and the stock of the new banks, which is owned by the old institutions; the proceeds of the loans from the Reconstruction Finance Corporation to be turned over to the new banks, together with certain acceptable assets of the old institutions, so that the condition of the banks at the time they opened for business was such as would qualify them for membership in the Federal Reserve System under the requirements ordinarily imposed by the Board. Each of the old banks, or a trustee for the State bank commissioner, holds a majority of the stock of another company, which has been organized as a part of the reorganization plan, to handle the real estate, rental, and insurance departments of the

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old banks, which companies, for a period of five years, are to be furnished executive management, necessary operating space and public utility services by the new institutions which will receive 50% of the net earnings of the companies for such service. Each of the new banks has taken over the trust business of the old bank, has assumed the liabilities of the trust department to the extent shown on the records of the department, and has agreed to turn over to the old bank 50% of the proceeds of the department for a period of five years.

The management of each new institution is substantially the same as that of the old bank, except that it is reported that the Bankers Commercial Trust Company has a new president who is considered a capable and successful business man and two new directors who are men of prominence and substantial worth, that the executive committee of the Peoples Bank has been strengthened by the addition to the executive committee of two of the three new men added to the directorate, and that the executive committee of the Union Bank has been augmented by two directors. The president of the Union Bank was with the Union Trust Company only four years and it is reported that the major part of the sub-standard assets were acquired prior to that time.

Attention was called to the fact that, while the stock of the new companies which have been organized to handle the real estate, rental and insurance departments of the old banks is not owned by the new institutions and the new banks will not be carrying on the business of the companies, the affiliation will be so close that there is a strong possibility that the public will be given the impression that the new bank is, in fact,

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conducting the business in the same manner as it was conducted by the predecessor institution. Mr. Morrill stated that, while the arrangement is not a satisfactory one, it was felt that, in view of the fact that the banks at the time of the appraisals by Federal reserve examiners were in good condition and solvent, they might be admitted to membership, subject to the usual conditions and certain special conditions including one requiring the termination within a specified time of the relationships between the new institutions and the affiliated companies.

Mr. James stated that, in his opinion, the history of the management of the banks is such that, before admitting them to membership, the Federal Reserve Board should give very careful consideration to the possible effects of such management upon the condition of the banks.

There ensued a discussion as to whether the Federal Reserve Board should require the discontinuance of the relationships provided by the respective organization agreements between the new banks and the affiliated companies prior to admission to membership, or within a period of, say, one year after admission, and as to what action, if any, might be taken with regard to the management of the applicant institutions.

During the discussion, Mr. O'Connor left the meeting, which continued as a meeting of the Executive Committee of the Federal Reserve Board.

The discussion indicated a feeling of a majority of the members of the Executive Committee that the banks should be required to discontinue their connection with the affiliated companies prior to admission to member-

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ship.

At the conclusion of the discussion, Mr. Paulger was requested to communicate with Mr. Wood, Federal Reserve Agent at St. Louis, and acquaint him with the attitude of the Board as referred to above, and to request that Mr. Wood, Governor Martin, and Mr. Bailey, Managing Director of the Little Rock branch, come to Washington for a meeting with the Board on Wednesday morning, June 7, for a discussion of the applications for membership, particularly with regard to the management of the new institutions.

In connection with the consideration of the applications above referred to, Mr. Morrill stated that consideration has been given to the advisability of a condition of membership requiring State member banks to maintain a proper ratio of unimpaired capital and surplus to deposits and that the following had been formulated for the consideration of the Board as a standard condition of membership:

"Such bank shall maintain an adequate ratio of paid-up and unimpaired capital stock and unimpaired surplus to its aggregate deposit liabilities; and if in any year ending on the thirty-first day of December the average amount of deposit liabilities of the bank during such year, as determined on the basis of reports made by the bank to the Federal reserve bank for the purpose of computing its required reserve, exceeds ten times the aggregate amount of the bank's paid-up and unimpaired capital stock and unimpaired surplus, such bank shall prior to the end of the first six months in the next succeeding year increase the aggregate amount of its paid-up and unimpaired capital stock and unimpaired surplus to an amount at least equal to ten per cent of the average amount of deposit liabilities of the bank as hereinbefore determined."

Mr. Morrill also stated that there are a considerable number of applications pending which are ready for action by the Board when the policy as to this matter is decided. The proposed condition was discussed, but action was deferred.

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The Secretary stated that, at the request of Mr. O'Connor, there had been prepared a statement showing the number and individual amounts of all salaries at the Federal reserve banks of \$10,000 per annum or more, and that information had just been received that the Comptroller of the Currency desired the information for the purpose of delivering it to Mr. Henry Morgenthau, Jr., Governor of the Farm Credit Administration, for use in a conference with the President of the United States at 1:00 p. m. today. Mr. Morrill said the statement was being brought to the attention of the Executive Committee for the reason that it is the present policy of the Board not to give out information as to salaries of officers and employees of Federal reserve banks, other than in the form in which it is shown in the Board's annual report, where the salaries of the chairman and Federal reserve agent and the governor of each bank are shown separately, but the salaries of other officers are grouped in one lump sum.

After discussion, the matter of furnishing the statement to the Comptroller of the Currency for the purpose named was referred to the Governor with power.

Reports of Standing Committee dated June 2, 1933, recommending approval of the following changes in stock at a Federal reserve bank:

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 11.</u>		
First National Bank, Trinity, Texas.	20	
Gainesville National Bank in Gainesville, Texas.	72	92
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	Total	92

Approved.

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Report of Standing Committee dated June 5, 1933, recommending approval of the following Clayton Act application:

Mr. John E. Malone, for permission to serve at the same time as director of the Ephrata National Bank of Ephrata, Pennsylvania, and as director of the Fulton National Bank of Lancaster, Pennsylvania.

Approved.

Thereupon the meeting adjourned.

Walter Merrill
Secretary.

Approved:

E. R. Beach
Governor.