

A meeting of the Federal Reserve Board was held in Washington on Monday, July 10, 1933, at 11:30 a. m.

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

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

The Board considered and acted upon the following matters:

Letter dated July 8, 1933, to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, approved by five members of the Board, stating that the Board notes from his letter of June 29 that, at the meeting of the board of directors on June 28, Mr. R. A. Young, Governor of the Federal Reserve Bank of Boston, was appointed as a member of the Federal Open Market Committee representing the First Federal Reserve District, to serve until December 31, 1933, or until his successor is appointed and qualified.

Approved.

Letter dated July 8, 1933, to Mr. Sproul, Secretary of the Federal Reserve Bank of New York, approved by five members of the Board, stating that the Board notes from his letter of July 3 that the board of directors, at its meeting on June 29, appointed Mr. George L. Harrison, Governor of the Federal Reserve Bank of New York, as a member of the Federal Open Market Committee for the remainder of the current year; it being contemplated that future selections of a member of that committee

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to represent the Second Federal Reserve District will be made at the annual meeting of the board of directors of the bank in January of each year.

Approved.

Reply on July 8, 1933, approved by five members of the Board, to a letter dated June 28 from Mr. McIlhenny, Secretary of the Federal Reserve Bank of Philadelphia, advising that, at a meeting of the board of directors of the bank held on June 21, Mr. George W. Norris, Governor, was elected a member of the Federal Open Market Committee to represent the Federal Reserve Bank of Philadelphia and Mr. William H. Hutt, Deputy Governor, was elected his alternate. The reply stated that under the provisions of section 12A of the Federal Reserve Act, as amended by section 8 of the Banking Act of 1933, the Federal Open Market Committee is a statutory committee; that the board of directors of each Federal reserve bank is authorized to select only one member thereof annually, no provision being made for an alternate; that, in the circumstances, it would seem that an alternate would have no legal status as a member of the Committee, even in the absence of the regularly appointed representative of his Federal reserve bank; and that the vote of an alternate on any matter coming before the Committee could not be counted, if a point of order were made against it. The reply also stated that there would seem to be no reasonable objection, however, to an alternate attending the meetings of the Committee and participating in the discussion, in the absence of the regularly appointed representative of his Federal reserve bank.

Approved.

Telegraphic reply on July 7, 1933, approved by four members of the Board, to a letter dated June 30 from Mr. Stevens, Chairman of the Federal

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Reserve Bank of Chicago, referring to the Board's letter of June 23 with which was inclosed the resolution adopted by the Board with regard to salary reductions at the Federal reserve banks, and stating that the executive committee of the bank on June 30 voted to restore as of July 1 the salary reduction of 5% which was instituted on January 1, 1933, by the board of directors; it being contemplated, however, that salaries which were reduced more than 5% on the basis of ability and efficiency may not be restored and that in a few other cases increases may exceed 5%. The reply stated that the Board approves the salary payments involved in the action of the executive committee of the bank, with the understanding that all cases of salaries of officers and salaries which must be approved by the Board under the personnel classification plan, where the resulting salary rates will be higher than the basic rates to which the 5% reduction applied, will be submitted to the Board for approval before they become effective.

Approved.

Telegraphic reply on July 8, 1933, approved by four members of the Board, to a telegram dated July 7 from Mr. Newton, Chairman of the Federal Reserve Bank of San Francisco, stating that the board of directors of the bank, at its meeting on July 6, voted to terminate the bank's share-the-work plan and to reestablish original salaries for officers and employees, effective July 1, 1933. The reply stated that the Board approves the salary payments involved in the action of the directors in reestablishing the basic salaries of officers and employees which were in effect at the time the share-the-work plan was adopted.

Approved.

Letter dated July 7, 1933, to Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, approved by four members of the Board, stating that,

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in accordance with the request contained in his letter of June 28, made because of the increased work being placed on the bank's counsel and with a view to expediting that work, the Board approves an increase in the compensation of counsel at the head office in an amount equal to two-thirds of the salary of a stenographer-clerk to be employed by him, the maximum amount chargeable to the Federal reserve bank to be \$100 per month.

Approved.

Reply on July 8, 1933, approved by five members of the Board, to a letter dated June 19 from Mr. Peyton, Federal Reserve Agent at Minneapolis, stating that he has placed Mr. Ernest W. Swanson on the payroll of the bank, with salary at the rate of \$4,000 per annum, and that Mr. Swanson will assume Assistant Federal Reserve Agent Bailey's work while he is absent from the bank on account of illness and will have active charge of the examiners and the examining work after Mr. Bailey returns. The reply stated that, in view of the circumstances set forth in the agent's letter, the Board approves the appointment of Mr. Swanson as an examiner in the Federal reserve agent's department of the Federal Reserve Bank of Minneapolis with salary at the rate of \$4,000 per annum; that, as an examiner, Mr. Swanson will not have authority to act for the agent in the receipt and delivery of Federal reserve notes; but that it is understood that Mr. Bailey did not act in that capacity and that Mr. Swanson will not be called upon to do so. The reply also stated that since, under the provisions of the Federal Reserve Act, the appointments of assistant Federal reserve agents, examiners and other members of the staffs of the Federal reserve agents are subject to the approval of the Federal Reserve Board, it has been the practice of the Federal reserve agents, whenever an emergency

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of the kind indicated in the agent's letter has arisen, to request by wire the Board's approval of the proposed appointment, setting out the necessary information; that it has been the practice of the Board to act promptly on such cases; that this applies to all examiners and assistant examiners and to all appointments to positions not covered by the personnel classification plan of the Federal reserve bank, as to which it is not necessary to submit the individual changes to the Board for approval in advance; and that it will be appreciated, therefore, if the agent will advise the Board at the earliest practicable date before making any further appointments not covered by the personnel classification plan so that the Board may have an opportunity to pass upon them before they become effective.

Approved.

Reply on July 8, 1933, approved by five members of the Board, to a letter dated June 28 from Mr. Peyton, Federal Reserve Agent at Minneapolis, referring to an address made by Assistant Federal Reserve Agent Mosher on June 26, and stating that instructions have been issued to members of the staff of the Federal Reserve Agent at Minneapolis to the effect that, in the future, no public address of any character shall be made before any public body, no matter how small, until the address has been submitted to the agent and edited. Mr. Peyton's letter also stated that he had come to the conclusion that Mr. Mosher is not indispensable to the bank and suggested that when the reappointment of assistant Federal reserve agents is considered, F. M. Bailey be made first assistant Federal reserve agent and E. W. Swanson second assistant Federal reserve agent. The reply stated that the Board has noted the agent's comments upon Mr. Mosher's services, both in his letter of June 28 and his previous letter in regard to the

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appointment of Mr. Ernest W. Swanson; that the Board understands that the agent does not contemplate the immediate reorganization of his department along the lines indicated in his letters, but that it is his present plan to request the Board's approval in connection with the customary annual review of the payroll of the Federal reserve agent's department at the end of the calendar year; and that, as at present advised, the Board sees no objection to the proposed arrangement and will give careful consideration to the agent's definite recommendation when he desires to have the Board act thereon.

Approved.

Telegraphic reply on July 8, 1933, approved by four members of the Board, to a letter dated July 6 from Governor Harrison of the Federal Reserve Bank of New York stating that advice has been received from the Bank for International Settlements that the Austrian National Bank is requesting a renewal for three months of the full amount of the credit to that institution, stating that no other course is open to it pending final settlement regarding the new loan to the Austrian Government referred to in paragraph 3 of the contract letter dated July 18, 1932, relating to this credit, and that, at the meeting of the board of directors of the Federal Reserve Bank of New York on July 6, it was voted, subject to the approval of the Federal Reserve Board, to authorize the officers to arrange for the renewal, for a period not exceeding three months, of the bank's participation of approximately \$975,000 in the credit, which expires July 18, 1933, provided the other principal participants in the credit do likewise. The reply stated that the Board offers no objection to the action of the directors of the New York bank, it being understood that the renewal will be upon the same terms and conditions as govern the existing credit.

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Telegraphic reply on July 8, 1933, approved by three members of the Board, to a telegram of that date from Mr. Wood, Federal Reserve Agent at St. Louis, with regard to the application of the Bank of Edwardsville, Illinois, for membership in the Federal Reserve System, which was approved by the Board on June 30, 1933. The reply stated that the Board will not object to the bank issuing certificates of beneficial interest to persons paying a voluntary assessment on 115 shares of stock of shareholders who were unwilling to pay such assessment, provided the amount of such certificates does not exceed \$11,500 and that this amount will be shown on the bank's books and all published statements as a direct liability of the institution, and with the understanding that when this has been done the bank's capital of \$150,000 and surplus of \$150,000 will remain unimpaired in accordance with condition number 17 contained in the Board's telegram of June 30, and the further understanding that counsel for the Federal reserve bank has considered the proposed change in the plan of reorganization and is satisfied that such change does not affect the validity of any agreements which have been executed covering the plan of reorganization.

Approved.

Telegraphic reply on July 8, 1933, approved by four members of the Board, to a letter dated June 24 signed by the Federal Reserve Agent and Governor of the Federal Reserve Bank of Boston, with regard to a proposed plan of reorganization of the Union Trust Company of Ellsworth, Maine, a member institution. The reply stated that it is understood that all assets of the bank classified by the examiner as doubtful or loss in a report of examination as of May 9, 1933, will be eliminated; that all assets classified as slow in such report, except approximately \$194,000 thereof, will be eliminated; that 6% cumulative preferred stock, to be retired at its par

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value of \$10 per share, will be sold to depositors of the bank in the aggregate par amount of \$200,000 plus a premium thereon in the aggregate amount of \$700,000, such preferred stock to be paid for by depositors through a voluntary waiver of their deposits; and that common stockholders of the bank owning at least 75% of the common stock will trustee their common stock for the benefit of depositors subscribing for preferred stock until dividends on the common stock are sufficient to pay the premium of \$700,000. The reply also stated that it appears that the present management of the trust company is unsatisfactory and will be replaced, and that it is assumed that a new management satisfactory to the agent and the Commissioner of Banking of Maine will be installed prior to or at the time of the reopening of the institution. The reply further stated that, on the basis of the information submitted, it appears that the proposed plan of reorganization is not contrary to the provisions of the Federal Reserve Act or the conditions of membership applicable to the bank, and that the Board's approval of such plan is not required. The reply called the agent's attention, however, to certain features of the proposed plan and suggested that they be brought to the attention of the State Banking Department for consideration.

Approved.

Letter dated July 8, 1933, to Mr. Case, Federal Reserve Agent at New York, approved by five members of the Board, prepared in accordance with the action taken at the meeting on June 30, 1933, in reply to Assistant Federal Reserve Agent Dillistin's letter of June 24 submitting tentatively a new plan for the reorganization of the affairs of the Westchester Trust Company of Yonkers, New York, in lieu of the one submitted previously on



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June 9, 1933. The reply stated that, in the circumstances, after careful consideration, the Board feels that it would not be justified in giving favorable consideration to an application based upon the information now available to the Board as to the contemplated plan of reorganization, that the Board sympathizes with the desire of the local interests to find some plan upon the basis of which a substantial part of the deposits of the old bank can be made available to creditors, and under which banking facilities can be provided if existing facilities in the community are not entirely adequate, and that the Board is disposed, therefore, to give sympathetic consideration to a definite plan which will provide for competent management under the direction of persons who will have a financial stake in the success of the bank, with assets of such general character and amount that the bank will not be likely to be dependent immediately upon the borrowing privileges which may be extended by the Federal reserve bank or other lending institutions, and with reasonable ground for belief in the prospects of its successful operation as a permanent institution.

Approved.

Telegram dated July 7, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by three members of the Board, replying to Assistant Federal Reserve Agent Young's letter of July 3 with regard to the proposed reorganization of the State Bank of Croswell, Michigan, including, in the event the bank is unsuccessful in collecting the remainder of a 100% stock assessment \$70,000 of which has been provided for, a reduction in the bank's capital from \$90,000 to an amount not lower than \$70,000. The reply stated that it appears from the information submitted by Mr. Young that corrections to be made will eliminate all losses, depreciation and doubtful assets and place the bank in a satisfactory condition with no liability for borrowed

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money or for the repayment to depositors of the amount of deposits waived by them, and that, on the basis of such information, and in view of the fact that the Board's consent to the proposed reduction in capital is not required by law or the conditions of membership applicable to the bank, the Board offers no objection to a reduction in capital in the amount indicated, if this is found to be necessary, with the understanding that counsel for the Federal reserve bank has considered the proposed plan and is satisfied as to its legal aspects, and that such reorganization will not result in any change in the corporate existence of the bank which will affect its membership in the Federal Reserve System.

Approved.

Letter dated July 8, 1933, to the Comptroller of the Currency, approved by four members of the Board, replying to Acting Comptroller Awalt's memorandum of June 30 recommending approval of the application of the Waltham National Bank, Waltham, Massachusetts, for permission to reduce its common capital from \$400,000 to \$200,000 and immediately increase its capital to \$600,000 by the sale at par of \$200,000 of common and \$200,000 of preferred stock; the released capital funds amounting to \$200,000 to be used to charge off depreciation and criticized assets. The reply stated that the Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply. The reply also noted with approval the recommendation of the Comptroller's office that the management of the bank be made satisfactory to the Chief National Bank Examiner and the Federal Reserve Bank of Boston, and stated that it is assumed that the Comptroller will require the fulfillment of this condition and also the approval by the Chief National Bank Examiner of assets

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to be purchased from the Waltham Trust Company.

Approved.

Telegraphic reply on July 8, 1933, approved by four members of the Board, to a telegram dated July 5 from Mr. McClure, Federal Reserve Agent at Kansas City, stating that the shareholders of a member bank in that district own, through trustees, all of the stock of an investment corporation, which owns all of the stock of an incorporated cattle loan company and of a nonmember bank; that the bank has advised the member bank that, in its opinion, all three corporations must be considered affiliates of the member bank and that the latter must obtain and furnish reports of condition of each of the three affiliates under section 5(c) of the Banking Act of 1933; but that the member bank thinks that only the investment corporation is an affiliate and that the requirements of section 5(c) with regard to reports will not apply to the two companies which are owned by the investment corporation. The reply stated that section 2, subparagraph (b), subdivision (2) of the Banking Act of 1933, defines affiliates as including any corporation of which control is held, directly or indirectly, through stock ownership or in any other manner, by trustees for the benefit of the shareholders of any member bank; that since the agent states that the trustees referred to hold for the benefit of the stockholders of a member bank all of the stock of an investment corporation which in turn owns all of the stock of a cattle loan company and of a nonmember bank, it is the opinion of the Board that the trustees control the investment corporation directly and the cattle loan company and the nonmember bank indirectly through the medium of the investment corporation, for the benefit of the shareholders of a member bank; that each of the

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corporations in question is an affiliate of the member bank within the meaning of the statute; and that, accordingly, reports of condition of each such corporation must be obtained as required by section 5(c) of the Banking Act of 1933.

Approved.

Letter to the governors of all Federal reserve banks stating that as questions have arisen regarding the extent and cost of service rendered by Federal reserve banks to member banks and others in the safekeeping of securities, the Board will appreciate it if the governors will submit certain information requested in the letter, as of July 31, 1933, this date being selected with a view to allowing ample time for the preparation of the desired data. The letter also stated that, in addition, the Board desires an estimate of cost, prepared in accordance with an inclosed form, of the various operations performed in the securities function at the head office and at each branch, if any, during 1932, and the governors' opinions as to whether there has been any substantial change in such costs since last year.

Approved.

Reply on July 8, 1933, approved by five members of the Board, to a letter dated June 28 from Mr. Burgess, Secretary of the Open Market Policy Conference, inclosing copies of the revised minutes of the meeting of the Conference on April 22, and of the meeting of the Executive Committee of the Conference on May 23, 1933. The reply noted that, while the last paragraph of the minutes of the meeting on April 22 has been changed somewhat, the last portion of the suggestion contained in the Board's letter of May 18 was not adopted.

Approved.

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Governor Black stated that Deputy Governor Kenzel of the Federal Reserve Bank of New York, Chairman of the Pension Committee of the Governors' Conference, had called him on the telephone and had advised that Governor Calkins of the Federal Reserve Bank of San Francisco had suggested that copies of a report recently submitted by the Pension Committee be sent to the governors of all Federal reserve banks, and that Mr. Kenzel had inquired if there would be any objection on the part of the Board to such a procedure.

After discussion, it was agreed that there was no objection to compliance by Mr. Kenzel with the suggestion, and it was suggested that Mr. Kenzel also send copies of the report to the chairmen of all Federal reserve banks.

The question was raised as to the desirability of calling a meeting of the Federal Open Market Committee in the near future to consider open market policy and Governor Black stated that it has been his thought that such meeting would not be called until the Board is prepared to discuss with the Committee the regulations to be issued by the Federal Reserve Board pursuant to the provisions of section 12A of the Federal Reserve Act, as amended by the Banking Act of 1933. It was stated that a tentative draft of regulation covering open market operations had been prepared and was under consideration by members of the Board's staff and that it was hoped that it would be ready for submission to the Board for consideration within the next three or four days.

After discussion, the Governor was requested to call a meeting of the Federal Open Market Committee to be held in Washington on Thursday, July 20, 1933, at 10:30 a. m., it being understood that, if possible, copies of the proposed regulation covering open market operations of Federal reserve banks would be sent to members of the Committee prior to the meeting.

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Mr. Morrill referred to a memorandum prepared by the Division of Examinations under date of July 10, 1933, copies of which have been furnished to all members of the Board, with regard to a revised plan for the organization of the South Side Bank and Trust Company, St. Louis, Missouri, to take over the business of the Lafayette-South Side Bank and Trust Company, and he stated that Mr. Robert Neill, Chief National Bank Examiner for the Eighth Federal Reserve District, and representatives of the proposed State bank have come to Washington to discuss the revised reorganization plan with the Federal Reserve Board in connection with the application of the new institution for membership in the Federal Reserve System, concerning which the Board wrote Mr. Wood, Federal Reserve Agent at St. Louis, on May 29 and June 19, 1933.

Thereupon Mr. Neill; Mr. Ethan Shepley, who is to be president of the reorganized bank; Mr. J. L. Rehme, President of the old Lafayette-South Side Bank and Trust Company; Mr. Marion C. Early, attorney for the bank; and Congressman Joseph B. Shannon joined the meeting.

Mr. Shepley reviewed the circumstances surrounding the acquisition of the stock of the South Side National Bank by the Lafayette-South Side Bank and Trust Company, and stated that the State bank has not felt that conditions have been such as to enable it to dispose of the stock of the national bank, and that the question involved is whether the Board will consider the new bank's application for membership while it owns such stock. He stated that if the bank is required to divest itself of the stock, it will require the raising of \$720,000 of additional funds, which it is felt could not be done without resorting to a waiver of deposits, which the new

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bank does not want to do, and that the reason for the organization of the new bank, rather than the continuation of the corporate existence and membership in the Federal Reserve System of the old institution is that the reorganization plan provides for the issuance of preferred stock, and there is a provision in the constitution of the State of Missouri which prohibits the issuance of preferred stock by any corporation without the consent of 100% of the common stockholders, which it was felt would be impossible to secure in the case of the Lafayette-South Side Bank and Trust Company. Mr. Shepley requested that the Board consider approving the bank's application for membership with the understanding that, if the stock in the national bank is not disposed of within eighteen months, the bank's membership would be forfeited.

Inquiry was made as to the affiliates of the Lafayette-South Side Bank and Trust Company, and Mr. Shepley stated that the Lafayette-South Side Investment Company, which was organized to hold government securities in order to avoid certain taxes, could be readily discontinued, as could the Lafayette-South Side Insurance Agency. He also stated that the South Side National Company is an operating company dealing in real estate, real estate loans, stocks and bonds, etc., and could be readily discontinued.

Mr. Shepley also advised, in response to an inquiry, that the plan of reorganization as presented to the Board has been approved by the Reconstruction Finance Corporation and, so far as it involves reorganization of the South Side National Bank and the removal therefrom of all criticized assets and depreciation, by the Comptroller of the Currency. Governor Black stated that there was in the minds of the members of the Federal Reserve Board the fact that the State bank, as a member of the Federal Reserve

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System, under the provisions of the Banking Act of 1933, could not buy the stock of the national bank, which raised the question as to whether the Board should act favorably upon the application of a bank which would acquire such stock and thereafter immediately become a member of the Federal Reserve System. In response to his inquiry as to the necessity for the new bank becoming a member at this time, it was stated that it is felt that the bank could not succeed without membership in the Federal Reserve System.

The question was then raised whether, instead of issuing \$1,548,000 of common stock as proposed, \$720,000 of that amount might be put into surplus account and used by the new bank to declare a dividend of the stock of the national bank. It was pointed out that if this action were taken the remaining amount of capital would appear to be sufficient in relation to the deposit liabilities. Mr. Shepley stated that he questioned whether the Reconstruction Finance Corporation would agree to that plan, as it had required the organizers to subscribe to common stock in an amount equal to the preferred stock issued. He also stated that if the plan were changed to that extent it would be necessary to resubmit it for approval to the subscribers for the common stock. Mr. Shepley also stated that the representatives of the bank would like to have the decision of the Board as soon as possible.

Congressman Shannon referred to the fact that approximately \$20,000,000, representing funds of approximately 40,000 depositors, are held by the Lafayette-South Side Bank and Trust Company and the South Side National Bank; that the banks are located in an important industrial section of St. Louis; and that the lack of availability of these funds is a serious



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handicap, as is the fact that over \$2,000,000 of the city's funds are held by the closed State institution. He added that, while it was realized the Board has certain rules and regulations which must be complied with, it was hoped that some way could be found to release the funds held by the two banks, and that in expressing this hope to the Board he was speaking also for the mayor of St. Louis, with whom he discussed the matter before coming to Washington.

Messrs. Neill, Shepley, Rehme, Early and Shannon then left the meeting.

The question of the holding by the proposed State institution of the stock of the national bank was discussed in the light of the provisions of the Banking Act of 1933, and it was pointed out by Mr. Wyatt that while technically it would not be a violation of the law if the applicant bank were to acquire the stock immediately prior to admission to membership in the Federal Reserve System, the effect would be an evasion of the law.

It was also pointed out that in addition to the question of the ownership of the stock of the South Side National Bank, the Board does not have sufficient information as to the proposed management of the new institution or adequate information as to the assets to be eliminated, and that additional information would be necessary as to the character of the assets which would be acquired by the bank from the affiliates of the Lafayette-South Side Bank and Trust Company in the event the affiliated companies are discontinued.

Mr. James suggested that the Board decide, as a matter of policy, that, in view of the provisions of the Banking Act of 1933, it will not

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approve the application of the South Side Bank and Trust Company for membership while it holds the stock of the national bank.

At the conclusion of the discussion, Governor Black was requested to inquire into the possibility of the creation of a surplus in the new bank to be used for the purpose of declaring a dividend of the stock of the national bank; it being understood that if such a change could be made in the plan, the Board would then consider the other aspects of the questions raised in connection with the application of the State bank for membership in the Federal Reserve System.

Reports of Standing Committee dated July 8 and 10, 1933, recommending approval of the following changes in stock at Federal reserve banks:

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 4.</u>		
Bellefontaine National Bank, Bellefontaine, Ohio.	72	
Citizens National Bank, Bryan, Ohio.	<u>54</u>	126
<u>District No. 6.</u>		
First National Bank of Jefferson Parish at Gretna, Louisiana.	<u>114</u>	<u>114</u>
	<u>Total</u>	<u>240</u>

Approved.

Thereupon the meeting adjourned.

Chester Morill  
Secretary.

Approved:

E. R. Black  
Governor.