

A meeting of the Federal Reserve Board was held in Washington on Tuesday, August 29, 1933, at 11:00 a.m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Martin, Assistant to the Governor  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Wyatt, General Counsel  
Mr. Boatwright, Assistant Counsel.

The Board considered and acted upon the following matters:

Letter dated August 24, 1933, from Mr. Roelse, Assistant Secretary of the Federal Reserve Bank of New York, and telegrams dated August 23, 1933, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, August 24, 1933, from Mr. McClure, Chairman of the Federal Reserve Bank of Kansas City, August 25, 1933, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, and August 28, 1933, from Mr. Mosher, Secretary of the Federal Reserve Bank of Minneapolis, 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.

Memorandum dated August 21, 1933, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Mr. Earl D. Buck and his designation as an Assistant Federal Reserve Examiner, with salary at the rate of \$4,200 per annum, effective August 28, 1933; the recommendation having been approved by four members of the Board on August 23, 1933.

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Mr. Buck was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board; and was designated an Assistant Federal Reserve Examiner, with salary at the rate of \$4,200 per annum, all effective as of August 28, 1933.

Memorandum dated August 23, 1933, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Mr. R. Wilson Oster and his designation as an Assistant Federal Reserve Examiner, with salary at the rate of \$2,600 per annum.

Mr. Oster was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board; and was designated an Assistant Federal Reserve Examiner, with salary at the rate of \$2,600 per annum, all effective as of the date upon which he enters upon the performance of his duties.

Memorandum dated August 24, 1933, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Mr. Charles T. Malone and his designation as an Assistant Federal Reserve Examiner, with salary at the rate of \$4,200 per annum; the recommendation having been approved by five members of the Board on August 26, 1933.

Mr. Malone was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board; and was designated an Assistant Federal Reserve Examiner, with salary at the rate of \$4,200 per annum, all effective as of the date upon which he enters upon the performance of his duties.

Memorandum dated August 23, 1933, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Benjamin D. Berry, as a messenger to be assigned to the Division of Examinations, with

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salary at the rate of \$1,100 per annum, effective as of the date upon which he enters upon the performance of his duties; the recommendation having been approved by four members of the Board on August 25, 1933.

Approved.

Memorandum dated August 25, 1933, from Mr. Smead, Chief of the Division of Bank Operations, recommending the appointment of Miss Evelyn Tindall as a comptometer operator in the division, with salary at the rate of \$1,440 per annum, effective September 1, 1933; the recommendation having been approved by six members of the Board on August 28, 1933.

Approved.

Letter dated August 15, 1933, from Governor Harrison of the Federal Reserve Bank of New York, stating that the Board's letter of August 1 addressed to Mr. Young, Deputy Chairman of the Federal Reserve Bank of New York, in reply to the letters which he and Governor Harrison wrote to Governor Black on July 14, 1933, regarding proposed changes in official salaries at the bank, was considered by the board of directors of the bank at its meeting on August 3, and that it was voted to take no action at that time on the two special cases referred to in the Board's letter of August 1, 1933, the directors believing that they also should be left for consideration until the end of the year as long as the Board indicated in its letter that it would not be prepared to take up the other recommendations of the directors until then. Governor Harrison's letter also called attention to the fact that the action of the directors with reference to the whole salary question followed the receipt of the Board's letter of July 11, 1933, asking the directors carefully to review the salaries of all the senior



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officers of the bank in the light of their varying responsibilities and stating that when this was done the Board would be glad to receive and consider a schedule setting forth the adjustments which would be appropriate and reasonable in the judgment of the directors, and that, inasmuch as the Board has now apparently decided to postpone this consideration until the end of the year, the directors of the bank were of the opinion that it would be preferable to consider all adjustments at that time rather than to take up now only the two special cases referred to.

Noted.

Telegraphic reply on August 21, 1933, approved by three members of the Board, to a letter dated August 18 from Mr. Hoxton, Federal Reserve Agent at Richmond, requesting approval by the Board of the appointment of Mr. Edward A. Leake as an examiner in the Federal reserve agent's department of the bank, with salary at the rate of \$3,100 per annum. The reply stated that the Board approves the appointment referred to with salary at the rate stated.

Approved.

Telegraphic reply on August 23, 1933, approved by four members of the Board, to a letter dated August 22 from Mr. Hoxton, Federal Reserve Agent at Richmond, requesting approval by the Board of the appointment of Mr. C. T. Allen as an examiner in the Federal reserve agent's department of the bank, with salary at the rate of \$3,600 per annum. The reply stated that the Board approves the appointment referred to with salary at the rate stated.



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Approved.

Letter dated August 22, 1933, from Mr. Peyton, Federal Reserve Agent at Minneapolis, referring further to the proposed termination of the services of Mr. Curtis L. Mosher as Assistant Federal Reserve Agent at the Federal Reserve Bank of Minneapolis and recommending that, in view of his long service, he be granted leave of absence with full pay from September 1 to December 31, 1933, inclusive.

The Secretary was requested to advise Mr. Peyton that the Board will interpose no objection to granting Mr. Mosher leave of absence as recommended, with the understanding that his services will terminate effective as of the close of business on December 31, 1933.

Letter dated August 24, 1933, to Mr. McClure, Federal Reserve Agent at Kansas City, approved by five members of the Board, stating that, according to the records of the Board, Mr. N. R. Oberwortmann, one of the employees of the Federal Reserve Bank of Kansas City, is acting in the dual capacity of examiner and assistant cashier, the division of duties being brought about originally because neither the operating department nor the agent's office required Mr. Oberwortmann's full time on work which might be assigned to him; that the Board feels that consideration should be given to the termination of this arrangement and Mr. Oberwortmann assigned exclusively to duties under and responsibility wholly to the Federal reserve agent or exclusively to the operating department; and that the Board will be glad to be advised as to the action taken upon this matter.

Approved.

Telegraphic reply on August 25, 1933, approved by three members of the Board, to a telegram of that date from Mr. Newton, Federal Reserve

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Agent at San Francisco, requesting approval by the Board of a request of the Reconstruction Finance Corporation that the Federal Reserve Bank of San Francisco lend to the Corporation Mr. E. F. Sims, a temporary examiner in the agent's department, for the purpose of assisting in examinations of the First National Bank and the Farmers and Merchants Savings Bank, both of Santa Ana, California. The reply stated that the Board interposes no objection to lending Mr. Sims to the Reconstruction Finance Corporation for the purpose referred to, and that it is assumed that Mr. Sims' salary during the examinations will be paid by the Corporation or that the bank will be reimbursed therefor.

Approved.

Reply on August 22, 1933, approved by four members of the Board, to letters dated August 9 from Mr. Curtiss, Federal Reserve Agent at Boston, with regard to indebtedness and outside business connections of officers and employees of the bank. The reply noted that the agent had included in his report of indebtedness of members of his staff information as to the indebtedness of the officers and employees of the auditing department, and stated that, inasmuch as this department reports to the chairman of the board of directors rather than to the Federal reserve agent, it is suggested that this information be presented to the directors for their consideration. The reply also noted that Mr. John J. Fogg, Assistant Auditor, is associated with the Boston Student's Union and the Frances E. Willard Settlement, and stated that it will be appreciated if the agent will advise the Board as to the purpose for which these activities were organized, and the nature of Mr. Fogg's official or other connection with

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them. The reply noted further that Mr. Marcus L. Ramsdell, Assistant Audit Clerk, has a minor business connection with a member of the Massachusetts Judiciary in some real estate operations in Nantucket, that one or two clerks are selling insurance after office hours in their native towns, one is working in a restaurant, and one receives a small annual compensation for auditing two charities, and stated that it is assumed that the agent has satisfied himself that these affiliations do not interfere in any way with the employees' service to the Federal reserve bank and that the activities do not involve any financial or other relations that might be embarrassing to the bank, but that it will be appreciated if he will confirm this assumption.

Approved.

Letter dated August 21, 1933, to Mr. Case, Federal Reserve Agent at New York, approved by five members of the Board, replying to Assistant Federal Reserve Agent Williams' letter of August 3 transmitting reports as of July 1, 1933, of indebtedness of officers and employees in the Federal reserve agent's department of the Federal Reserve Bank of New York. The reply stated that it appears that Mr. Williams also forwarded reports submitted by members of the auditing department, and that, inasmuch as this department reports to the chairman of the board of directors rather than to the Federal reserve agent, it is suggested that the information contained in the reports be brought to the attention of the directors of the bank. The reply noted that requests for reports were not made of certain employees in the agent's department receiving a salary of less than \$3,000 per annum, and stated that the Board's letter of April 29, 1933, contem-



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plated the submission of reports of indebtedness by all members of the Federal reserve agent's staff, and that in order that the Board's records may be complete with regard to the New York bank it will be appreciated if the agent will obtain and forward to the Board reports as of July 1, 1933, covering indebtedness of employees in the agent's department from whom such reports have not been requested. The reply also noted that the report submitted by Mr. Dillistin, Assistant Federal Reserve Agent, states that the proceeds of two personal loans were used by him for the purpose of purchasing securities, and stated that it is assumed that there were not included in the purchases any obligations of banking institutions, their subsidiaries or affiliates, but that it will be appreciated if the agent will advise the Board whether its assumption is correct. The reply also stated that Mr. R. M. Cheseldine reports that he is co-maker on a note of a friend in favor of the National City Bank; that the Board feels that the same objections which may be made to an employee of a Federal reserve bank borrowing for his own account from a member bank, apply in the case of an employee acting as co-maker or endorser on a note representing a loan by a member bank to another person; that the report submitted by Mr. H. H. Wighton states that he is liable as endorser on his wife's note in the amount of \$250.00; and that, inasmuch as the payee or holder of the note is not named, it is assumed the holder is not a member bank. The reply stated further that it is also noted that the reports of certain employees are incomplete in some minor details and that this additional information will be forwarded to the Board when available; that Mr. Williams' letter makes no reference to the steps taken by the agent to comply with the

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request contained in the Board's letter of April 29, 1933, that there be submitted to it information with regard to any outside business connections of officers and employees of the bank occupying responsible positions; and that it will be appreciated if the agent will advise when this information will be sent to the Board.

Approved.

Reply on August 23, 1933, approved by four members of the Board, to a letter dated August 12 from Mr. Stevens, Federal Reserve Agent at Chicago, with further reference to indebtedness of members of the Federal reserve agent's department of the bank. The reply noted that in Mr. Patterson's memorandum of August 3, 1933, inclosed with the agent's letter, he states that his indebtedness to the Union and Peoples Company of Jackson, Michigan, consists of two notes aggregating \$26,106.98, whereas the report of his indebtedness as of July 1, 1933, which was inclosed with the agent's letter of July 11, shows indebtedness in the amount of \$13,052.58, and stated that, inasmuch as Mr. Patterson's memorandum states that the sale of the collateral will reduce the debt to \$14,700.00, it is assumed that the amount shown on the report is in error, and that \$26,106.98 is the correct amount. The reply also noted that further information with regard to the indebtedness of Mr. Pitman will be forwarded to the Board as soon as an opportunity is presented for the agent to discuss the matter with him; and stated that the Board is pleased to note that the employees of the bank are being encouraged to consult with the officers before seeking loans from personal loan companies in the future, with the thought that funds may be made available from the employees' loan fund.

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Approved.

Reply on August 25, 1933, approved by five members of the Board, to a letter dated July 26 from Mr. Walsh, Federal Reserve Agent at Dallas, with further regard to indebtedness of officers and employees in the Federal Reserve Agent's department of the Federal Reserve Bank of Dallas. The reply stated that it is noted that the members of the agent's staff who are indebted to member banks will take steps to liquidate such indebtedness and that the agent will keep the Board informed of the progress made in this connection; that it is also noted that Mr. Hall, Assistant Federal Reserve Agent, will arrange to dispose of his holdings of the stock of the Idabel National Bank within a reasonable time; and that it will be appreciated if the agent will advise the Board of the action taken by Mr. Hall in the matter. The reply also referred to a statement contained in the agent's letter with regard to the loan policy of the Federal Reserve Employees' Savings and Investment Association, which shows that loans are made by the association to employees of the Federal Reserve Bank and others on the security of automobiles as collateral, and stated that the Board feels strongly that any association of officers and employees of a Federal Reserve Bank for the purpose of establishing a savings fund or loan fund should confine its loan activities strictly to members of the bank's staff, that under no circumstances should advances be made to persons not employed by the Federal Reserve Bank, and that any loan to an officer and employee of the bank should be limited to amounts within the capacity of such officer or employee to repay; and that it is requested, therefore, that the agent suggest to the Federal Reserve Employees' Savings and Investment Association



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that it discontinue the practice of making loans to persons not in the employ of the Federal reserve bank, and that he advise the Board of the consideration given by the association to the suggestion. The reply stated further that the Board understands that Mr. R. B. Coleman, Deputy Governor, and Mr. Fred Harris, Cashier, are trustees of a fund created by the bank from receipts of notaries fees, and that advances are made from this fund to employees only in the case of necessitous circumstances.

Approved.

Reply on August 21, 1933, approved by five members of the Board, to a letter dated August 12 from Mr. Newton, Federal Reserve Agent at Atlanta, with further reference to the attendance at directors' meetings of Messrs. P. H. Saunders and E. H. Allison, directors respectively of the New Orleans and Birmingham branches of the Federal Reserve Bank of Atlanta. The reply noted the agent's statement that, if they can arrange to attend meetings regularly, he would like to have the directors continue to serve the respective branches, as their counsel and advice are always valuable, and that he feels that if an opportunity is afforded to talk with them, he will be able to persuade them to attend directors' meetings and other meetings of the branches regularly, and stated that the Board is in agreement with the agent's statement that if Messrs. Saunders and Allison are able to be present at directors' meetings only infrequently they should retire, but that, in view of the agent's comments referred to above, the Board will take no action in the matter until he has an opportunity to discuss the situation with them personally and advise the Board the results of the discussions.

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Approved.

Reply on August 21, 1933, approved by five members of the Board, to a telegram dated August 14 from Governor Calkins, Chairman of the Governors' Conference, stating that, feeling that it was important that the work of the pension committee be carried forward without interruption, he had appointed, with the unqualified approval of the governors of all the Federal reserve banks, and received the acceptance of, Mr. L. R. Rounds, Deputy Governor of the Federal Reserve Bank of New York, as chairman of the pension committee of the Governors' Conference to succeed Mr. E. R. Kenzel, deceased. The reply stated that the Board is not advised whether Mr. Kenzel prior to his death had instituted the necessary steps to obtain proposals from insurance companies in accordance with the plan which he submitted to the Board, and that the Board will be glad to be advised as to the present status of the matter. The reply also stated that, as it is assumed that Governor Calkins, if he has not already done so, will request Mr. Rounds to make a report to the governors of the Federal reserve banks showing the present situation with respect to negotiations with the insurance companies, it will be appreciated if Governor Calkins will transmit to the Board a copy of such report.

Approved.

Letter dated August 28, 1933, to the board of directors of The Peoples Savings Bank, Van Wert, Ohio, approved by four members of the Board, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the number of shares of stock of the Federal Reserve

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Bank of Cleveland to which the bank will be entitled upon the basis of its capital and surplus as of the date upon which its membership becomes effective.

Approved.

Letter dated August 28, 1933, to the board of directors of the Templeton Savings Bank, Templeton, Iowa, approved by six members of the Board, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the number of shares of stock of the Federal Reserve Bank of Chicago to which the bank will be entitled upon the basis of its capital and surplus as of the date upon which its membership becomes effective.

Approved.

Letter dated August 28, 1933, to Mr. Newton, Federal Reserve Agent at Atlanta, approved by six members of the Board, referring to the application of the Florida Bank at Orlando, Florida, for membership in the Federal Reserve System, and stating that it has been noted that a majority of the shares of the capital stock of the bank is owned by Florida National Group, Inc., and Almours Securities, Inc.; that it is also noted that the Florida National Group, Inc., is a wholly owned subsidiary of Almours Securities, Inc.; that if the bank is admitted to membership in the Federal Reserve System it will be necessary for Almours Securities, Inc., and Florida National Group, Inc., to agree to accept the same conditions and limitations as are applicable under section 5144 of the Revised Statutes of the United States, as amended, in the case of holding company affiliates of national



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banks, and to obtain from the Board voting permits as required by the provisions of sections 9 of the Federal Reserve Act and 5144 of the Revised Statutes, as amended by the Banking Act of 1933; and that in acting upon applications for such voting permits, the Board is required under the law to consider the financial condition of the applicant holding company affiliates, the general character of their management and the probable effect of the granting of such permits upon the affairs of the member bank. The letter also stated that the Board does not, at this time, have sufficient information with regard to Almours Securities, Inc., and Florida National Group, Inc., to determine whether or not they should be granted voting permits; that it does not feel that it should act upon the application for membership of the Florida Bank at Orlando until it is also in a position to determine whether it can properly grant voting permits to the holding company affiliates of the bank; that the agent is requested to advise the bank that the Board will defer action upon its application for membership and that copies of the regulations and forms relative to voting permits of holding company affiliates will be furnished to the bank as soon as practicable, in order that Almours Securities, Inc., and Florida National Group, Inc., may take appropriate action preparatory to their applications for voting permits; that the Board will, therefore, consider the application for membership when applications for voting permits have been received and the Board has given favorable consideration to such applications; and that it is essential that the voting permits be applied for as soon as possible after receipt of the Board's regulations in order to obviate the necessity of any further examination of the bank applying for membership,

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since it is important that the information regarding the condition of the bank be current. The letter suggested that when Almours Securities, Inc., and the Florida National Group, Inc., apply for voting permits in connection with the Florida Bank at Orlando, they should also include in their applications a request for a voting permit covering any other member banks of which they are holding company affiliates within the meaning of section 2(c) of the Banking Act of 1933 and the Board's Regulation P, and stated that if the Florida National Associates, Inc., or any other corporation, business trust, association, or other similar organization is a holding company affiliate of any such member bank, such organization should file, at the same time, an application for a permit to vote the stock of any such member bank; and that, in advising the applicant bank of the Board's position in the matter of its application, it is suggested that the agent point out to the institution its undercapitalization and suggest that in the interim an effort be made to increase the capital to a more satisfactory ratio to deposits.

Approved.

Letter dated August 23, 1933, to Mr. Williams, Federal Reserve Agent at Cleveland, approved by four members of the Board, replying to Assistant Federal Reserve Agent Fletcher's letter of August 19 recommending approval of the request of the Dormont Savings & Trust Company, Dormont, Pennsylvania, for an extension for thirty days of the time within which to accomplish its admission to membership in the Federal Reserve System under the conditions contained in the Board's letter of July 31, 1933. The reply stated that the Board grants the extension requested.

Approved.

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Letter dated August 28, 1933, to Mr. McClure, Federal Reserve Agent at Kansas City, approved by five members of the Board, stating that the Board has received a request from The Commercial Bank, Grand Island, Nebraska, for an extension until November 1, 1933, of the time within which to accomplish its admission to membership in the Federal Reserve System under the conditions contained in the Board's letter to the bank of August 1, 1933, and has also received the agent's letter of August 18 recommending that the request be granted. The letter also stated that, while the Board is not disposed to grant an extension of time until November 1, 1933, it is willing to extend until October 1, 1933, the time within which the bank may comply with the conditions and accomplish its admission to membership, and that it will be appreciated if the agent will so advise the bank.

Approved.

Reply on August 21, 1933, approved by five members of the Board, to a letter dated August 8 from Mr. Young, Assistant Federal Reserve Agent at Chicago, advising that the Merchants & Farmers Bank, Grays Lake, Illinois, whose application for membership in the Federal Reserve System was approved by the Board on June 30, 1933, subject to certain conditions, has requested that it be permitted to withdraw its application, stating as its chief objection to membership at this time that the bank desires to pay time certificates before their due date. The reply stated that, in accordance with the request of the bank, its application will be considered as having been withdrawn.

Approved.



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Letter dated August 22, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by four members of the Board, replying to Assistant Federal Reserve Agent Prugh's letter of August 16 advising that the Citizens Banking Company of Anderson, Indiana, whose application for membership in the Federal Reserve System was approved by the Board on June 3, 1933, subject to certain conditions, has requested that the application for membership be withdrawn. The reply stated that, in accordance with the request of the bank, its application will be considered as having been withdrawn.

Approved.

Letter dated August 22, 1933, to Mr. Hoxton, Federal Reserve Agent at Richmond, approved by four members of the Board, replying to Assistant Federal Reserve Agent Fry's letter of August 7 inclosing a letter dated August 4 from the Bank Commissioner of Maryland with regard to proposed plans of reorganization of banks whereby depositors waive part of their deposits, receiving therefor certificates of beneficial interest which are preferred to all claims of the stockholders and are payable from the recovery in assets written off and from such part of the earnings of the bank as the board of directors, with the approval of the Bank Commissioner, may determine. The reply stated that it appears from the information submitted that in some cases these certificates are direct liabilities of the bank, but are carried on the books in the nominal amount of one dollar; that the Board has taken the position that a bank's books and published statements should reflect all liabilities; and that, in this connection, the agent's attention is called to the Board's letter of June 20, 1933 (X-7455), in

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which circumstances comparable to those here involved were discussed in connection with the reduction of capital of national banks. The reply quoted extracts from a letter to the Federal reserve agent of another district stating that the Board would not be justified in approving a membership application of a bank reorganized on a plan similar to the plans referred to in Mr. Fry's letter, and stated that it appears from the plan of reorganization inclosed in Mr. Fry's letter that there also may be other matters involved therein which the Board could not approve in connection with an application for admission to membership, but that, in the absence of detailed information with regard to these points and particularly in the absence of copies of all agreements usually executed in carrying out such a plan of reorganization and advice as to whether the plan is binding only on depositors who voluntarily execute agreements contemplated by the plan or is binding upon all depositors in the event a prescribed part of the depositors agree, the Board cannot undertake to determine these questions definitely at this time. The reply also stated that if the Bank Commissioner of the State of Maryland so desires, the Board will be glad to consider all features of the plan of reorganization upon receipt of detailed information with regard to all of its features and copies of all agreements usually involved, and that any additional information which is furnished the Board in this matter should be accompanied by the agent's recommendation and any comments of counsel for the Federal reserve bank after careful consideration of all aspects of the proposed plan of reorganization.

Approved.

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Reply on August 21, 1933, approved by five members of the Board, to letters dated July 13 and 31 from Mr. Stevens, Federal Reserve Agent at Chicago; the reply reading as follows:

"The Board has received your letters of July 13 and July 31, 1933, with regard to the policy which should be followed in the consideration of applications for membership received from State banks which have been reorganized, with the approval of the State banking department, on the basis of plans involving a partial waiver of deposits, such plans of reorganization giving evidence that the shareholders have forced the depositors to bear the burden of the reorganizations and themselves have not made proper contributions toward rehabilitating the banks. The Board notes that such banks, after reorganization, may be in a position technically to qualify for membership but that you have grave doubts of the continuing confidence of the community in banks which have forced their depositors into reorganizations of this kind and of the future success of such banks, particularly where the management remains unchanged, and that such procedure is at variance with the reorganization policy of the Federal Reserve Bank of Chicago which requires the shareholders first to bear the burden of correction. It is also noted that your general experience over the past ten years with many such banks is that they have been unable to survive, and you inquire whether the general policy which you are following of asking such banks to defer their applications until such time as the possibility of their successful operation can be determined to your satisfaction is in conflict with the rights of the banks asking for membership.

"Under the provisions of the Federal Reserve Act, as you know, the Federal Reserve Board is specifically required to consider the financial condition and the character of the management of each bank applying for membership in the Federal Reserve System. Accordingly, in each such case, the Board gives careful consideration to all factors which may affect the financial condition of the applying bank. As it is apparent that the manner in which an existing bank is reorganized may have a decided bearing on the condition of the institution which should be taken into account in connection with an application by such bank for membership, full information should be obtained with regard to the manner in which such reorganization was effected, and careful consideration given to its possible effect on the condition of the bank and the institution's ability to maintain a sound financial condition in the future.

"The Board feels that when, after a careful consideration of all the facts involved, the Federal reserve agent is of the



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"opinion in any case that there is grave doubt as to the ability of the applying bank to maintain a sound condition on account of inequities in the plan of its reorganization, or for any other reason, he is fully justified in suggesting that the application for membership be deferred until it can be determined more definitely whether the bank will be able to maintain a sound condition or until appropriate action has been taken to correct the inequities. Of course, if in any such case the applicant bank requests that its application be submitted to the Federal Reserve Board, the Board will be glad to consider the application upon receipt of full information as to all the facts in the case and the recommendation of the Federal reserve agent, together with that of the Committee of his bank, as to the action which should be taken.

"In all of these cases, whether submitted to the Board or not, careful inquiry should be made into the plan of reorganization for the purpose of determining whether, under such plan, the shareholders have been or will be released from any obligation to correct the condition of the bank, the reasons for any such release, whether the management has made full effort to conserve the interests of the depositors, the attitude of the community toward the reorganized institution, the character of the institution's management and whether any changes should have been made therein, the need for the institution in the community and whether the possibilities for its future growth and ability to survive are favorable. In this connection, in any case where the reorganization has not resulted in a change in the management, careful consideration should be given to the responsibility of the management for the condition of the bank which required its reorganization, and a statement which establishes a clear justification for the continuance of such management from the standpoint of the welfare of the institution must be furnished.

"There may be some instances where the depositors will benefit through a reorganization of the type mentioned where the shareholders' liability is uncollectible and the liquidation of the institution through receivership proceedings would entail a greater loss than through a waiver of deposits. However, the Board feels that, in the absence of special circumstances, it would not be justified in admitting a bank to membership on the basis of a reorganization plan under which the shareholders evidently have not assumed a reasonable share of the burden of correcting the bank's unsatisfactory condition and particularly where the management responsible for the bank's unsatisfactory condition remains unchanged, until the bank has demonstrated that it is in sound condition and that it has the confidence of the community."

Approved.

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Reply on August 28, 1933, approved by six members of the Board, to letters dated July 19 and August 21 from Mr. Stevens, Federal Reserve Agent at Chicago, inquiring whether the Board would object to the issuance of stock not subject to assessment in reorganizations of State member banks, and inclosing a copy of a letter received from the Commissioner of Banking of the State of Michigan, in which he called attention to the fact that under the provisions of section 22 of the Banking Act of 1933 the additional liability imposed upon shareholders in national banking associations by the provisions of section 5151 of the Revised Statutes, as amended, will not apply with respect to shares in a national bank issued after the date of the enactment of the Banking Act of 1933. The reply stated that the Board does not require that the capital stock of State banks admitted to membership in the Federal Reserve System shall be subject to assessment where under the laws of the State under which the bank is organized non-assessable stock may lawfully be issued; that in a number of instances it has admitted banks to membership having capital stock not subject to assessment; and that, in the circumstances, the Board would not object to the issuance of stock not subject to assessment in the reorganization of a State member bank where the issuance of such stock is authorized under the laws under which the bank is organized.

Approved.

Letter dated August 25, 1933, to the Reconstruction Finance Corporation, Washington, D. C., approved by five members of the Board, replying to a letter dated August 5 from Mr. James B. Alley, Counsel for the Corporation; the reply reading as follows:



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"Reference is made to the letter addressed by your Counsel, Mr. James B. Alley to the Federal Reserve Board on August 5, 1933, requesting advice as to whether debentures issued by a bank under the provisions of the laws of the State of New York may be considered capital by the Federal Reserve Board in determining whether or not such bank has a capital sufficient to make it eligible for membership in the Federal Reserve System.

"It appears that the laws of the State of New York authorize a State banking institution 'to issue by its board of directors capital notes or debentures when so specifically authorized by the superintendent of banks'. The New York laws apparently do not in terms prescribe any of the qualities or rights and liabilities of such debentures or of the holders thereof. However, it is understood that under the provisions of the Constitution of the State of New York any stock issued by banks located in that State, including preferred stock, is subject to double liability and that the amendment to the laws of the State of New York authorizing banks to issue debentures was enacted in order to enable banks in that State to obtain funds for the protection of depositors without the holders of such debentures being subject to double liability as in the case of holders of capital stock of banks in that State.

"It has also been noted that under the provisions of Section 304 of the Act of March 9, 1933, as amended, the Reconstruction Finance Corporation is not authorized to purchase preferred stock in a State banking institution if under the laws of the State in which such institution is located the holders of preferred stock are not exempt from double liability. However, in any State where a State banking institution is not permitted to issue preferred stock exempt from double liability the Reconstruction Finance Corporation is authorized to purchase legally issued capital notes or debentures of State banking institutions located in such State. It has also been noted that under the provisions of R. F. C. Form P. S. 2, Form of Bank Debentures, debentures which will be purchased by the Reconstruction Finance Corporation represent promises to pay on a specified date the amount of money paid in on such debentures and to pay the holders of the debentures a prescribed rate of interest semi-annually, and that so long as any of the debentures are outstanding the bank may not, except under certain circumstances, issue additional debentures or incur any 'other indebtedness' except for certain specified purposes. Such Form further provides that except under certain circumstances no debentures shall be called for redemption unless the unimpaired capital, surplus and undivided profits of the bank is in excess of a prescribed amount. Under the provisions of the laws of New York and the form of debenture prescribed by the Reconstruction Finance Corporation, the holders of such debentures apparently are not entitled to voting rights in the



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"management of the corporation.

"In the circumstances described above, it seems clear that the New York law and the form of debenture prescribed by the Reconstruction Finance Corporation contemplate that such debentures shall represent borrowed money of the issuing bank and are not intended to represent a proprietary interest in the bank as is usually represented by capital stock of a bank or other corporation.

"Under the provisions of the Federal Reserve Act, banks become members of the Federal Reserve System through subscriptions for stock in a Federal reserve bank and, except in the case of mutual savings banks or similar institutions which are not here involved, the Federal Reserve Act requires that the subscription for Federal reserve bank stock shall be made on the basis of the 'paid-up capital stock and surplus' of the subscribing bank. The Federal Reserve Act also provides that a State bank shall not be admitted to membership unless it possesses 'a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated', except that banks located in a place having a population of not exceeding three thousand inhabitants may be admitted under certain circumstances with a capital of not less than \$25,000. In this connection, attention is called to the fact that, under the provisions of Section 303 of the Act of March 9, 1933, the term 'capital', as used in provisions of law relating to the capital of national banking associations 'shall mean the amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired.' The term 'capital', as used in connection with the capital requirements of national banks, therefore, includes only common and preferred stock, and, in view of the facts described above, this definition of 'capital', applicable to national banks, is also applicable to capital requirements for admission of State institutions to membership in the Federal Reserve System.

"In view of the above circumstances and the provisions of law referred to, it seems clear that, under the provisions of the Federal Reserve Act, the eligibility of a State bank for membership in the Federal Reserve System depends upon the amount of its capital stock and cannot be determined upon the basis of its capital stock plus borrowed money obtained through the issuance of debentures or other methods. In this connection, it may be noted that, under the law and the consistent position of the Board, the surplus of a bank is not included in determining whether the bank has sufficient capital to make it eligible for admission to membership.

"You are accordingly advised that, in the opinion of the Federal Reserve Board, debentures issued under the provisions of the laws of the State of New York, as described above, may not be included in determining whether a State bank has a capital sufficient to make it eligible for membership in the Federal Reserve System."

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Approved.

Telegram dated August 25, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by five members of the Board, referring to the application of the First State Bank, Holland, Michigan, for permission to withdraw immediately from membership in the Federal Reserve 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 First State Bank, the Federal Reserve Bank of Chicago is authorized to cancel such stock and make a refund thereon.

Approved.

Telegram dated August 25, 1933, to Mr. Wood, Federal Reserve Agent at St. Louis, approved by five members of the Board, referring to the application of the Twin City Bank of North Little Rock, Arkansas, for permission to withdraw immediately from membership in the Federal Reserve 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 Twin City Bank of North Little Rock, the Federal Reserve Bank of St. Louis is authorized to cancel such stock and make a refund thereon.

Approved.

Letter dated August 22, 1933, to Mr. Williams, Federal Reserve Agent at Cleveland, approved by five members of the Board, replying to Assistant Federal Reserve Agent Fletcher's letter of July 31 advising of the receipt from the Toledo Trust Company, Toledo, Ohio, a member, of a

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formal request for permission from the Board to purchase the business and assets, and assume the liabilities of the West Toledo National Bank, Toledo, Ohio, which request was recommended by the agent for the favorable consideration of the Board. The reply stated that, from the information submitted, it would appear that the proposed transaction would not result in any change in the character of the assets of the Toledo Trust Company or in the scope of the functions exercised by it within the meaning of the general condition under which the trust company was admitted to the Federal Reserve System, and that, in accordance with the agent's recommendation, the Board will interpose no objection to the transaction, provided that counsel for the Federal reserve bank is satisfied with the legal aspects of the agreement of purchase and that the transaction will not result in any change in the corporate existence of the trust company which might affect its membership in the Federal Reserve System. The reply also stated that, in view of the fact that the Toledo Trust Company has not been examined since June 30, 1932, the Board feels that an examination should be made at an early date either by the State banking authorities or by the agent's department.

Approved.

Reply on August 21, 1933, approved by five members of the Board, to a letter dated August 8 from Mr. Newton, Federal Reserve Agent at Atlanta, transmitting the request of the Bank of Monroe, Georgia, for an extension of the time within which it is required by law to dispose of the remaining 51 shares of its own stock which were acquired on February 6, 1933, to prevent a loss on a debt previously contracted in good faith,



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and recommending that the Board grant an extension of such time to January 1, 1934. The reply stated that the Board is not authorized to grant the bank permission to hold this stock longer than the period of six months from the date of acquisition thereof allowed under the provisions of section 9 of the Federal Reserve Act; and requested that the agent call the provisions of the law to the attention of the Bank of Monroe and advise it that the Board must insist that such stock be disposed of at the first practicable opportunity, and that the agent keep the Board advised of the action taken by the bank to dispose of the stock.

Approved.

Reply on August 26, 1933, approved by five members of the Board, to a letter dated August 8 from Mr. Newton, Federal Reserve Agent at Atlanta, inclosing a copy of a letter dated August 5 from the Bank of Tifton, Georgia, advising that the appraisal of the bank's other real estate as required under condition number 20 for admission to the Federal Reserve System had been completed. The reply stated that one of the provisions of condition number 20 was that the bank "shall charge off immediately the amount of any loss shown by such appraisal", the intent being that each piece of property in the other real estate account should be treated as a separate unit and that no individual property should be carried at more than its appraised value; that the appraisal shows that certain properties of the bank are being carried at amounts in excess of their appraised values; and that it is requested that the agent advise the Board whether the Bank of Tifton has fully complied with the condition by charging off the excess of book over appraised values on these

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properties, and that the bank secure an independent appraisal of its two vacant lots in Baltimore carried at \$1,750 and of its interest in the Phoenix Planing Mill Company of Atlanta carried at \$2,400 and, on the basis of such appraisals, charge off any excess amount of book over appraised values, advising the Board in detail when this has been accomplished. The reply also stated that it appears that several properties carried in the bank's other real estate account have been held for periods considerably in excess of five years, including the two vacant lots in Baltimore which have been held since 1919, and that the Board feels that assets of this type are extremely undesirable for retention by a commercial banking institution over such an extended period of time and would like to be advised regarding the steps being taken by the bank for the elimination thereof.

Approved.

Reply on August 26, 1933, approved by five members of the Board, to letters dated June 16 and July 10 from Mr. Walsh, Federal Reserve Agent at Dallas, with regard to the proceedings which were instituted by the Board to determine whether the membership in the Federal Reserve System of the Forney State Bank, Forney, Texas, should be terminated. The reply stated that the Board has approved the recommendation of the board of directors of the Federal Reserve Bank of Dallas that no further steps be taken to terminate the membership of the State bank and that the proceedings which have been instituted in this connection have been brought to a close.

Approved, together with a letter dated August 26, 1933, to the Forney State Bank, also approved by five members of the Board, advising

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of the Board's action as referred to above.

Letter dated August 25, 1933, to the First National Bank of Athol, Massachusetts, approved by five members of the Board, stating that the Board approves the application filed in the bank's behalf for permission to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the Commonwealth of Massachusetts, the exercise of all such rights being subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

Approved.

Letter dated August 23, 1933, to the Baltimore National Bank, Baltimore, Maryland, approved by three members of the Board, stating that the Board approves the application filed in the bank's behalf for permission to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Maryland, the exercise of all such rights being subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board. The letter also stated that the Board feels that the bank should not take over any trusts



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from the Baltimore Trust Company the execution of which might react unfavorably upon the bank, and further feels that, if the bank is tendered any of the trusts now held by the Baltimore Trust Company, it should carefully scrutinize the condition of these trusts, which, through their assumption, may be detrimental to the interests of the institution, and particularly that the bank should not accept the trusteeship for issues of the First National Company which is commented upon by the examiner in his report of examination of the trust department of the Baltimore Trust Company as of April 18, 1933.

Approved.

Letter dated August 26, 1933, to the Hamilton National Bank, Washington, D. C., approved by four members of the Board, stating that, effective if and when the Comptroller of the Currency authorizes the bank to commence business with a capital of at least \$1,000,000 and surplus of \$250,000, the Board approves the application filed in the bank's behalf for permission to act, when not in contravention of local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver and committee of estates of lunatics, the exercise of all such rights being subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

Approved.

Letter dated August 28, 1933, to Mr. Curtiss, Federal Reserve Agent at Boston, approved by five members of the Board, replying to Assistant Federal Reserve Agent Gettemy's letter of August 8 inclosing the application of the Norway National Bank, Norway, Maine, filed in ad-

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vance of the granting of its charter, for permission to act in all fiduciary capacities authorized under section 11(k) of the Federal Reserve Act. The reply observed that the laws of the State of Maine provide that a bank exercising fiduciary powers must have a paid-in capital of at least \$50,000, and stated that information obtained from the office of the Comptroller of the Currency discloses that the applicant bank was chartered and authorized to commence business with only \$33,643.46 of its \$50,000 capital paid in, and that, therefore, the institution could not exercise fiduciary powers, if granted conditionally, until the capital required by the laws of the State of Maine for a bank exercising powers had been fully paid in. The reply also stated that, in these circumstances, the Board is unwilling to act upon the application made on behalf of the national bank prior to the date it was authorized to commence business, and suggested that, when the bank's capital has been fully paid in, it file an application for trust powers in its own behalf.

Approved.

Letter dated August 23, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by three members of the Board, replying to his memorandum of July 18 recommending approval of a reduction in capital of the Middletown National Bank, Middletown, Connecticut, from \$369,300 to \$196,960 and the immediate increase of such capital to \$350,000, by the sale at par of 3,826 shares of new stock of par value of \$40 per share; the released capital in the amount of \$172,340 to be used to eliminate estimated losses in loans and discounts and depreciation on stocks, defaulted bonds and investment securities as shown in the report of examination of the bank as of February 16, 1933. The reply stated that the

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Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply. The reply also observed that on the basis of the last report of examination as of February 16, 1933, the corrections to be made under the proposed plan of reduction in capital will not be sufficient to eliminate all estimated losses and depreciation on securities, and stated that it is understood, however, that the bank has indicated its willingness to raise additional capital funds if given a little more time, and that it is assumed that the Comptroller's office will require further corrections to be made as soon as possible.

Approved.

Letter dated August 23, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by three members of the Board, replying to his memorandum of July 28 recommending approval of a reduction in the capital stock of The Matteawan National Bank, Beacon, New York, from \$200,000 to \$100,000 in accordance with a plan which provides for a reduction in the par value of the shares from \$100 to \$50 and the sale of \$100,000 new stock at par; the released capital in the amount of \$100,000 to be used to eliminate securities depreciation and criticized assets as determined by the Chief National Bank Examiner. 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 stated that, in connection with condition numbered one, the Board notes the suggestion of the office of the Federal Reserve Agent at New York that one-half of the \$100,000 of new money be paid into capital stock account and one-half into surplus fund; that this procedure would provide a capital structure adequate for the present volume of deposits and permit of the elimination



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of \$50,000 more of criticized assets than would be the case if the entire amount of new funds is used for new capital; and that it is assumed that this suggestion has received consideration by the Comptroller's office.

Approved.

Letter dated August 23, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by three members of the Board, replying to his memorandum of July 25 recommending approval of a reduction in the capital stock of the First National Bank, Meeker, Colorado, from \$40,000 to \$25,000, in accordance with a plan of reorganization which provides for a 100% voluntary assessment by the shareholders and the sale of \$25,000 preferred stock to the Reconstruction Finance Corporation; the released capital in the amount of \$15,000, together with the shareholders' contribution of \$40,000 and funds in the amount of approximately \$3,268 available in the surplus and undivided profits of the bank, to be used to eliminate unacceptable assets in the amount of approximately \$58,268. The reply stated that the Board approves the reduction under the plan submitted, subject to the conditions set forth in the reply. The reply also stated that it appears that, in the event of retirement of the preferred stock, the common capital of the bank probably would be inadequate to support its deposit liability, besides being below the statutory minimum, and that it is assumed that the Comptroller's office will require that adequate provision be made for the issuance of additional common stock, if and when such preferred stock is retired, so that the statutory minimum of capital and a satisfactory ratio of capital to deposits will be maintained at all times.

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Approved.

Reply on August 28, 1933, approved by six members of the Board, to a letter dated June 12 from Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, in response to the Board's letter of June 6, 1933, with regard to the examination of the Federal Reserve Bank of Minneapolis made by the Board's examiners as of March 22, 1933. The reply contained further comments with regard to various matters mentioned in the chairman's letter, and requested that the chairman furnish the Board with additional information in connection with certain of the matters.

Approved.

Letter dated August 21, 1933, to the Secretary of the Treasury, approved by five members of the Board, referring to the request of the then Secretary of the Treasury under date of February 24, 1933, that a special inquiry be instituted by the examiners of the Board with the view to determining whether the proper procedure is followed at each of the Federal reserve banks and their branches in connection with the issue, exchange and redemption of Government securities, and transmitting a copy of a special report by Federal Reserve Examiner Cagle, as of May 27, 1933, covering the fiscal agency department of the Federal Reserve Bank of New York.

Approved.

Letter dated August 25, 1933, to Mr. Case, Federal Reserve Agent at New York, approved by five members of the Board, inclosing a copy of a report of the special study as of May 27, 1933, of the fiscal agency operations of the Federal Reserve Bank of New York, and stating that the Board desires that the detailed information contained in the report be

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brought to the attention of the board of directors of the bank, and that the Board be advised of any action which may be taken in connection therewith. The letter also stated that the Board will appreciate advice as to whether the recommendations of the examiner in regard to auditing functions, with a view to maintaining a more complete control over the assets, accounts and functions of the fiscal agency department, have been adopted.

Approved.

Letter dated August 23, 1933, to the Secretary of the Treasury, approved by three members of the Board, referring to the request of the then Secretary of the Treasury under date of February 24, 1933, that a special inquiry be instituted by the examiners of the Board with the view to determining whether the proper procedure is followed at each of the Federal reserve banks and their branches in connection with the issue, exchange and redemption of Government securities, and transmitting a copy of a special report by Federal Reserve Examiner Cagle, as of July 29, 1933, covering the fiscal agency department of the Federal Reserve Bank of Richmond.

Approved.

Letter dated August 21, 1933, to Mr. McClure, Federal Reserve Agent at Kansas City, approved by five members of the Board, inclosing a copy of a report of a special study of the fiscal agency operations of the Federal Reserve Bank of Kansas City, and stating that particular attention is directed to the examiner's comments concerning the transactions involved in the special subscriptions made by the reserve bank to various issues of Government securities, and the distributions made of the allotments



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received on such subscriptions, and that the Board questions the need or desirability of the reserve bank entering subscriptions the allotments on which are to be used for the purpose of adjusting errors arising on the part of either the reserve bank or a subscribing bank, or to provide for subscriptions received from banks or individuals too late to handle in the usual manner, and regards the practice of assigning any portion of the allotments received on such special subscriptions to officers or employees of the reserve bank, or to banks in which a director of the reserve bank is interested, as especially undesirable. The letter also stated that the Board feels very strongly, as stated in its circular letter X-7407, dated April 12, 1933, that subscriptions for Government securities, filed with a reserve bank by its directors, officers and employees, should be handled in strict accordance with Treasury instructions and in no respect receive more favorable treatment than would be accorded other subscriptions of the same class; and that the Board desires, therefore, that the detailed information contained in the report be brought to the special attention of the board of directors of the bank and that the Board be advised of the action taken in this connection. The reply stated further that the Board will appreciate advice as to whether the various suggestions made by Mr. Cagle in regard to changes in the forms used by, and the clerical routine of, the fiscal agency department, and his recommendations in regard to auditing functions with a view to maintaining a more complete control over the assets, accounts and functions of the fiscal agency department, have been adopted.

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Reply on August 21, 1933, approved by five members of the Board, to a letter dated July 19 from Mr. Wood, Federal Reserve Agent at St. Louis, referring to the petition of certain banks in Benton County, Arkansas, to be transferred from the Eighth to the Tenth Federal Reserve District, and stating that of the ten banks in the county four did not sign the petition; that only three of the ten banks are members, one of which did not sign the petition; that one of the two signing member banks had indicated indifference to the proposed change; that of the seven nonmember banks one remits in St. Louis exchange, one effects collection of items through the national bank of the same town which remits in St. Louis exchange, and the other five are not on the par list; and that, while the agent does not object to the proposed change, he feels it is unnecessary and recommends against it. The reply stated that Mr. McClure, Federal Reserve Agent at Kansas City, in a letter addressed by him under date of July 25, 1933, to the Bank Commissioner of Arkansas, a copy of which was sent to Mr. Wood, stated that it was felt that, while the change might be of some benefit to a few banks, the benefits would be more than offset by the inconvenience and confusion which would result from the change in Federal reserve district lines; that in a letter addressed to the Board by Mr. Wasson, Bank Commissioner of Arkansas, under date of July 10, 1933, in response to the Board's letter of July 6, he stated that he had no interest in the matter except to approve the banks' request for the transfer; and that, in view of these circumstances, the Board will take no action with regard to the requested change at this time, but that should the banks in Benton County, in accordance with the

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last paragraph of Mr. McClure's letter of July 25 to the Bank Commissioner of Arkansas, submit additional information in support of their request of a character which would result in a change in the agent's recommendation, the Board will be glad to give further consideration to the matter.

Approved.

Reply on August 22, 1933, approved by four members of the Board, to a letter dated August 14 from Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, Chicago, Illinois, referring to the recommendation adopted at the meeting of the Federal Advisory Council on November 19, 1929, with respect to a study of branch, group and chain banking. The reply stated that Mr. Lichtenstein is correct in his understanding that a Federal Reserve System committee was appointed to make a study along the general lines mentioned in the recommendation of the Federal Advisory Council; that the committee formulated a report which is quite voluminous, being embraced in about eleven volumes of typewritten manuscript; and that, after considering the matter of printing or publishing the report, the Board concluded not to take such action, and consequently copies are not available for distribution, although each Federal reserve bank has a set of copies. The reply also stated that when the Council meets in September, if it is the desire of the members to examine the report, a set will be made available by Mr. Goldenweiser for their inspection.

Approved.

Letter dated August 23, 1933, to Mr. Williams, Chairman of the Federal Reserve Bank of Cleveland, approved by five members of the Board,



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transmitting, for his information and consideration, a copy of a memorandum addressed to Mr. Morrill by Mr. Smead, Chief of the Division of Bank Operations, and Mr. Paulger, Chief of the Division of Examinations, containing recommendations with regard to the audits of the accounts of the Fiscal Agent of the Federal Reserve Board. The letter stated that it is understood from a telephone talk with Mr. Williams that it will be entirely satisfactory to him to permit the auditor of the Federal Reserve Bank of Cleveland to audit the Fiscal Agent's accounts for the period beginning July 1, 1933, and ending July 1, 1935, and to have the first audit made as of the close of business August 15, 1933, subsequent audits to be made as of dates to be selected by the auditor; that, while the procedure outlined in the memorandum has been considered carefully, it will, nevertheless, be appreciated if Mr. Williams will feel free to make any suggestions regarding it that seem to him and the auditor of the Federal Reserve Bank of Cleveland to be desirable; and that a similar request is being made of the Federal Reserve Bank of Richmond. The letter also stated that it is contemplated that the Federal Reserve Bank of Cleveland should be reimbursed for the compensation and expenses of its auditor and any necessary assistance in the same manner as reimbursement is now made for the temporary assistance of employees of the Federal Reserve Bank of Cleveland who are assigned to aid from time to time in the examinations by the Board's Division of Examinations of other Federal reserve banks under established procedure; that it is believed that the actual time which will be required for the audits will aggregate only a few days for each audit; and that it will be appreciated if Mr. Williams

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will advise at his earliest convenience as to any suggestions he may have regarding the plan for auditing the Fiscal Agent's accounts so that final action may be taken upon it by the Board at an early date.

Approved, together with a letter dated August 23, 1933, to Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, also approved by five members of the Board, inclosing a copy of the letter to Mr. Williams, together with a copy of the memorandum referred to therein, and stating that it will be appreciated if Mr. Hoxton will let the Board have the benefit of any suggestions that either he or Mr. Walden, Controller, may feel will be helpful.

Letter dated August 26, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, stating that under the provisions of section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, a State member bank may establish and operate a branch outside of the city, town or village in which it is situated "on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks"; that a national bank is required, among other things, to obtain the approval of the Comptroller of the Currency in order to establish a branch beyond the limits of the city, town or village in which it is situated; that the question has arisen whether, in these circumstances, it is necessary that a State member bank obtain the consent of the Comptroller of the Currency in order to establish and operate an out-of-town branch; and that the Board's counsel has given careful consideration to this question and has reached the conclusion that it must be answered in the affirmative. The letter inclosed, for the information of the Comptroller, a copy of the opinion on this question, prepared in

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the office of the Board's counsel, and stated that, in view of the fact that, with respect to other matters, supervisory powers and authority over State member banks are vested in the Federal Reserve Board, it has occurred to the Board that, as a practical matter, it may be desirable, both from the standpoint of the Comptroller of the Currency and of the Board, that applications or requests of State member banks for the approval of the establishment and operation of out-of-town branches be handled in substantially the following manner: Such a request or application may be submitted by a State member bank to the Federal reserve agent of the district in which the bank is located and transmitted by him with his recommendation and comments to the Federal Reserve Board. The Board will then consider such request on the basis of the facts and recommendation submitted and of the information which it has in its records with respect to the member bank in question. The Board will then present the request of the State member bank to the Comptroller of the Currency for his consideration, advising him of the recommendation of the Federal reserve agent and also of its own views on the question, with the request that the Comptroller inform the Board as to his conclusion in the matter. The letter stated further that it will be appreciated if the Comptroller will advise the Board whether, as a practical matter, the handling of requests or applications for the establishment of out-of-town branches of State member banks, in accordance with the procedure suggested above, will be agreeable to him.

Approved, together with a letter to the chairmen of all Federal reserve banks, also approved by five members of the Board, for dispatch if and when the procedure as referred to



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above is approved by the Comptroller, stating that the procedure as set forth in the letter to the Comptroller of the Currency has been agreed upon, and requesting that applications of State member banks which may desire to establish out-of-town branches be handled in accordance with the procedure.

Telegraphic reply on August 28, 1933, approved by five members of the Board, to a telegram dated August 26 from Deputy Governor Attebery of the Federal Reserve Bank of St. Louis, stating that the Memphis Branch on August 25 made a loan to a nonmember bank secured by direct obligations of the United States, under section 403 of the Act of March 9, 1933, and inquiring as to whether the provisions of section 404 of the Act of March 9, 1933, as amended by the Act of March 24, 1933, apply to such loans, particularly with respect to examination of the bank, and the requirement as to maintaining a reserve balance. The reply stated that the requirements with respect to loans made under section 404 of the Act of March 9, 1933, as amended by the Act of March 24, 1933, are not applicable in the case of a loan made under authority of the last paragraph of section 13 of the Federal Reserve Act, as amended by section 403 of the Act of March 9, 1933.

Approved.

Letter dated August 22, 1933, to the Under Secretary of the Treasury, approved by five members of the Board, stating that the Board is informed that the Attorney General rendered an opinion under date of August 18, 1933, at the request of the Secretary of the Treasury, with regard to the interpretation of the term "executive officer" as used in section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1933; that the Board desires to publish the text of this opinion in

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the Federal Reserve Bulletin and to furnish copies of the opinion to the Federal reserve banks, if this is agreeable to the Attorney General; and that it will be appreciated, therefore, if the Under Secretary will inquire of the Attorney General whether he has any objection to this being done.

Approved.

Reply on August 22, 1933, approved by five members of the Board, to a letter addressed under date of August 5 by Mr. Louis D. Carroll of Baltimore, Maryland, to Senator Peter Norbeck, and by him referred to the Board for reply, in regard to a loan which it appears was made by the Maryland Trust Company of Baltimore in November, 1929. The reply stated that, while the Federal Reserve Board has certain general supervisory powers with respect to member banks of the Federal Reserve System, it is not within its authority to interfere with the taking of such steps to collect any indebtedness due to such bank as the officers and directors of the bank may deem proper and justifiable within legal limitations; that, therefore, the Board could not undertake to request the Maryland Trust Company to withhold action on the indebtedness to which Mr. Carroll refers; and that, consequently, the proper course of procedure would be for Mr. Carroll to take the matter up directly with the officers of the bank and endeavor to work out a satisfactory arrangement with respect to the indebtedness.

Approved.

Reply on August 25, 1933, approved by five members of the Board, to letters dated July 26 and August 11 from Mr. Logan, Counsel of the Federal Reserve Bank of New York, inclosing copies of opinions of the

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attorneys for the First Citizens Bank & Trust Company of Utica, New York, with regard to the question whether payment of interest is required by the law of the State of New York upon deposits of public funds of the State or of counties or municipalities thereof, and stating that, in the light of these opinions, Mr. Logan has answered some inquiries on this subject by stating that, while he has formed no final opinion in the matter, the information he has at the present time indicates that the New York State law does not require the payment of interest on demand deposits of such public funds; that if the Board so desires he will reply in this manner to the inquiry contained in the letter of the Manufacturers Trust Company, dated July 19, 1933, and inclosed with Mr. Logan's letter of July 26; and that it is expected that the New York State Legislature will enact a bill at an early date which will clearly require the payment of interest on deposits of public funds of the State and of counties and municipalities thereof. The reply stated that, in the circumstances, the Board will be glad to have Mr. Logan reply to the letter from the Manufacturers Trust Company in the manner which he has suggested, but that this is not to be understood as a final expression of opinion by the Board on the question whether payment of interest is required by the law of the State of New York on deposits of public funds, and that, in this connection, attention is invited to the Board's letter of August 22, 1933 (X-7558). The reply also stated that the Board agrees with the view expressed by Mr. Logan that deposits of court or trust funds in the names of New York counties, consisting of unclaimed moneys paid into court and moneys held in court for the benefit of minors and incompetents, are not deposits of "public



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funds" within the meaning of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, unless the beneficial ownership of the funds is in the State or some subdivision thereof, and such deposits do not fall within any of the other exceptions to the prohibition of the statute; and requested that Mr. Logan include advice as to the views of the Board with reference to this question in his letter to the Manufacturers Trust Company.

Approved.

Reply on August 21, 1933, approved by five members of the Board, to a letter dated July 12 from Mr. Peyton, Federal Reserve Agent at Minneapolis, inclosing copies of opinions of the Attorney General of the State of South Dakota and of counsel for the Federal reserve bank with respect to the question whether a member bank may lawfully pay interest on deposits of public funds of the State of South Dakota which are payable on demand. The reply stated that one of the exceptions to the prohibition of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, upon the payment by a member bank of interest on any deposit payable on demand is "any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law"; and that the question presented is whether the law of the State of South Dakota requires the payment of interest on deposits of public funds made by or on behalf of the State, of counties thereof, or of other subdivisions or municipalities thereof. The reply also stated that the opinions inclosed with the agent's letter have been considered by the Board's counsel, who advises that, upon the basis of the information submitted and the

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statutes referred to in the opinions, he finds no reason to express an opinion differing from the conclusion of counsel for the Federal reserve bank on the question; and that, in the circumstances, it is suggested that the agent reply to the inquiry which he has received on this subject in accordance with the views expressed by counsel for the Federal reserve bank.

Approved.

Letter dated August 22, 1933, to the chairmen of all Federal reserve banks, approved by four members of the Board, stating that the provision of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, which forbids a member bank to pay interest on any deposit payable on demand excepts "any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law"; that the Board has been requested to rule upon questions as to whether the payment of interest is required on such public funds under the provisions of particular State statutes; and that, in view of the numerous and varying provisions of the laws of the States on this subject, the Board feels that, when a question as to whether a particular State law requires the payment of interest on public funds is presented to a Federal reserve bank, it is advisable that it be considered by counsel for the Federal reserve bank and his opinion should be followed in the matter, unless there appears to be doubt as to the proper interpretation to be placed upon the law and it is considered advisable to present the matter to the Board. The letter also stated that in any case in which a question of this kind is submitted to the Board, it is requested that there be furnished to

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the Board copies of all pertinent provisions of the State law, a copy of an opinion of counsel for the Federal reserve bank discussing all aspects of the question fully and in detail, and a copy of an opinion on the question rendered by the State Attorney General or other State official having similar authority, together with any other information which may be relevant. The letter stated further that it will be appreciated if the chairmen will furnish the Board, merely for its information, with a copy of any opinion which may be rendered by counsel for the Federal reserve bank on a question of this kind, even though it is not considered necessary to present the matter to the Board for a ruling.

Approved.

Reply on August 21, 1933, approved by five members of the Board, to a letter dated June 28 from Mr. Logan, Deputy Governor of the Federal Reserve Bank of New York; the reply reading as follows:

"Reference is made to your letter of June 28, 1933, with inclosure, in which the question is raised whether, under the provisions of Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, a trust company organized under the laws of the State of New York, and a member of the Federal Reserve System, may pay interest on deposits of funds belonging to an estate or trust of which it is acting as executor or trustee and deposited by the trust department in the commercial department of the trust company, subject to immediate withdrawal. In this connection, you refer to a provision of the Banking Law of New York which requires a trust company to pay interest on funds received by it in a fiduciary capacity; but the law does not appear to require that deposits of such funds in another department of the trust company shall necessarily be made payable on demand.

"As you know, Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, forbids a member bank, directly or indirectly, to pay interest on any deposit which is payable on demand, except in accordance with a contract entered into in good faith prior to June 16, 1933, and in force on that date; and a member bank is required to



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"eliminate from any such contract any provision for the payment of interest on deposits payable on demand as soon as possible consistently with its contractual obligations. Deposits of certain kinds are excepted from the provision of law in question; but deposits of the kind which are the subject of your inquiry would not appear to come within any of the exceptions mentioned in the statute (unless payable only at an office of a member bank located in a foreign country); and the Federal Reserve Board has no authority to make any additional exceptions to the prohibition of the law against the payment of interest on deposits payable on demand. It is the opinion of the Board, therefore, after a consideration of the question which you raise, that a member bank is forbidden by law to pay interest on deposits of funds payable on demand which belong to an estate or trust in which it is acting as executor or trustee and which are deposited by the trust department in the commercial department of the bank, except in accordance with a contract entered into in good faith before June 16, 1933, and existing on that date, and such a contract must be modified by the bank as soon as possible to eliminate any provision for the payment of interest on deposits payable on demand."

Approved.

There was then presented for the record the following report of a Committee of the Agents' Conference, which was submitted to the Conference and approved at its meeting on August 16, 1933:

"Your members who have been assigned to consider Topic IV - 'Regulations and Interpretations of the New Act' - offer the following observations thereon:-

- a. "The Federal Reserve Board has addressed to all Federal Reserve Agents a tentative form of Regulation on 'Savings and Time Deposits and Interest Rates'. This tentative draft has had the careful study of the office groups in the several Federal reserve banks, and the Board now has the comments and suggestions from the Federal reserve banks. We are advised that the Federal Reserve Board will shortly promulgate its regulation in final form. The members of the Conference have a deep conviction that there should be more explicit control of the maximum amount of any savings deposit upon which interest may be paid. No doubt exists as to the promise of encouragement by certain banks to a policy of transfer of demand deposits in part to a savings deposit basis in order to circumvent the prohibition of interest payment upon demand deposits. Since Counsel for the Board is convinced that the Banking Act of 1933 gives no lawful basis for a classification of savings deposits as to a maximum

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"amount acceptable at interest in any one account the Conference expresses the hope that the Federal Reserve Board may find this matter of sufficient importance to consider a request to the Congress at its next session to enact legislation to give the Board an authority to define a maximum amount permitted as to any single savings bank deposit.

- b. "The Federal Reserve Board has issued Regulation P, Series of 1933 - 'Holding Company Affiliates - Voting Permits'. It has also issued X-7543 (Interpretation of Banking Act of 1933) applying to a particular case of affiliate examination.

"It is believed that the great variety and intricacy of affiliate relationships brings to the fore another sound reason for the numerical and quality enlargement of the examination staffs in the Federal Reserve Agents departments. Furthermore, the statement in letter advices to the Board of particular affiliate relationships if made presently by the Federal Reserve Agents may contribute helpfully to the solution of this group of problems as the Board devises its final regulations thereon.

- c. "While it is understood that the Federal Reserve Board has an interim opinion of its Counsel as to the effect of Section 8A of the Clayton Antitrust Act as amended by section 33 of the Banking Act of 1933 and is prepared to deal with strictly emergency applications for permits to serve as director in more than one institution, the Board has requested the deferring of such applications in general pending the issuance of regulations and the preparation of forms to be used in that connection.

"In general your committee believes that there is great helpfulness to the Federal Reserve Agents in the particular letters of interpretation that are being received. The Secretary of the Board advises us that we are receiving these important contributions in every case where specific problems are presented to the Board. Although we are mindful of the added burden laid upon the Board and its officers by suggesting an increase of such Letters of Interpretation, it is suggested that by presenting to the Board for advice thereon all such problems as they arise in the several Federal reserve banks each Federal Reserve Agent is materially aiding his colleagues in preparation for their new and heavier responsibilities.

L. B. Williams

W. W. Hoxton

M. L. McClure

Committee"



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Reference was then made to the expiration on June 30, 1933, of the period covered by the Board's approval of the payment to the Comptroller of the Currency by Federal reserve banks of a fee of \$10.00 for each report of examination of national banks, and to the action taken at the meeting of the Federal Reserve Agents' Conference on August 16, 1933, in voting, subject to the approval of the Federal Reserve Board, to acquiesce in a request of the Comptroller of the Currency that the fee of \$10.00 be continued for one year from July 1, 1933. It was pointed out that the \$10.00 fee was approved by the Board in November, 1932, for the purpose of assisting the office of the Comptroller of the Currency to make up a deficiency in the revenues of his office for the fiscal year 1933 pending a determination by the Comptroller upon some other method of meeting the situation; that conferences between Mr. Paulger, Chief of the Board's Division of Examinations, and the Chief National Bank Examiner of the Comptroller's office have established the fact that a fee of \$5.00 is amply sufficient to cover the cost of the reports furnished the Federal reserve banks; but that the Comptroller of the Currency has not been able to determine upon a method of making up the deficiency in his funds and that the continuation of the \$10.00 fee for reports furnished the Federal reserve banks is again requested by him temporarily to meet the situation.

Mr. James stated that he felt that if the Comptroller of the Currency will agree to set up a procedure under which adequate examinations of the trust departments of national banks will be made and assure the Board that satisfactory examinations will be made in the future, he would be willing to approve the payment for a temporary period of an additional



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amount for the reports furnished to the Federal reserve banks, but that he feels there should be a distinct understanding that the examinations of national banks are to be satisfactory to the Federal Reserve Board, particularly with regard to the examination of the trust departments.

Mr. O'Connor stated that he was fully aware of the necessity for the establishment of an adequate force of examiners and satisfactory supervision of the examination of trust departments of national banks, but that his office has been so occupied with the problems of opening closed national banks that he had had no opportunity to work out a procedure for the examination of trust departments or a satisfactory basis for assessment for such examinations under the Act of July 2, 1933<sup>2</sup>, which authorizes the Comptroller of the Currency to assess against a national bank the cost of examining the trust department. He stated, however, that he would give attention to this matter as soon as possible.

At the conclusion of a discussion, the action of the Federal Reserve Agents' Conference was approved with the understanding that the payment of a fee of \$10.00 for each report of examination of a national bank furnished by the Comptroller of the Currency during the year ending June 30, 1934, will enable him to meet the present deficiency in the revenues of his office and that as soon as possible during the year there will be set up by the Comptroller an organization to examine trust departments of national banks for which an adequate charge will be made.

In connection with the above matter, reference was made to the report of a committee of the Federal Reserve Agents' Conference with regard to the responsibility of the Federal reserve agents under the Banking Act of 1933, in which it was stated that the Federal reserve agent at each Federal reserve bank should have a thoroughly trained man on his force to

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examine the trust departments of State member banks and that the services of such a man should be available for the examination of trust departments of national banks.

The Secretary was requested to send a letter to all Federal reserve agents stating that the Board approves the recommendation of the conference and requests each agent to take steps immediately to arrange for the employment of a man who is well qualified as a trust examiner, and, when found, to make a specific recommendation to the Federal Reserve Board with regard to his appointment and salary.

Mr. Morrill then stated that as a result of negotiations authorized by the Board at the meeting on July 28, 1933, an agreement has been reached with the Shoreham Investment Company, Incorporated, owners of the Shoreham Building, and a lease has been prepared providing for 856 square feet of additional space on the third floor of the Shoreham Building for the Division of Bank Operations at a rate of \$1.50 per square foot or a total rental of \$107 per month, the lease to expire on June 30, 1937, subject to the right of the Board to terminate the lease on or after the first day of July, 1935, upon sixty days' written notice, which conforms to the provisions of the existing lease covering the space now occupied by the Divisions of Bank Operations and Research and Statistics in the Shoreham Building; that two leases have been prepared providing for space on the sixth floor of the Shoreham Building, to be occupied by the Division of Examinations, one lease covering 4342.9 square feet to be occupied beginning September 1, 1933, at a rental of \$633.34 per month, and the other lease providing for (a) 1007 square feet to be occupied as soon as ready for occupancy during the first week of September, at a rental of

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\$146.90 per month, and (b) 453 square feet to be occupied beginning October 1, 1933, or as soon as ready for occupancy, at a rental of \$66.06 per month. In both of these leases covering space on the sixth floor, the rental is at the rate of \$1.75 per square foot per year and the terms of the leases expire on February 28, 1934, with an option on the part of the Board to renew for the period ending June 30, 1937, subject to the right of the Board to terminate the renewed leases at any time upon 90 days notice in writing. Mr. Morrill also stated that, in view of the option of the Board to terminate the leases covering the space to be occupied by the Division of Examinations, it is provided that if the lease covering the 4342.9 square feet of space is terminated within one year, the Board is to pay the Shoreham Investment Company \$1,500, representing the cost of replacement of partitions which are being removed in that space pursuant to the agreement with the Company.

The Governor was authorized to execute the three leases above referred to on behalf of the Federal Reserve Board following their execution by a duly authorized officer of the Shoreham Investment Company, Incorporated.

Memorandum dated August 11, 1933, from Mr. Wyatt, General Counsel, recommending that the Board authorize the expenditure of a sum not exceeding \$470 for the purpose of erecting and painting temporary partitions subdividing rooms 204 and 208 into two rooms each, and a partition cutting a room off the end of room 357 which will be occupied by Counsel's office as soon as the Division of Examinations is moved to the Shoreham Building.

Approved.



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There was then presented a memorandum dated August 11, 1933, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment of Mr. Woodlief Thomas as a member of the staff of that division, with salary at the rate of \$666.67 per month, with the understanding that the appointment and compensation are to be reviewed at the end of six months; Mr. Thomas to take the place of Mr. Winfield Riefler, who has been loaned temporarily to the President's Executive Council. Mr. Morrill stated that Mr. Thomas is now in the employ of the Federal Reserve Bank of New York, and that Mr. Case, Chairman of the New York bank, had advised that the board of directors of the bank had granted Mr. Thomas a leave of absence with pay during the period of his service to the Board, one of the reasons for the directors' action being the desire to preserve Mr. Thomas' status under the bank's group insurance policy.

After discussion, during which it was agreed that the Board should pay the salary of Mr. Thomas during the period of his service, and, in order that there may be no question as to the continuance of his status under the bank's group insurance policy, the Secretary was requested to advise the chairman of the Federal Reserve Bank of New York that the Board will reimburse the Federal reserve bank for Mr. Thomas' salary at the present rate of \$7,500 per annum during the period of his service to the Federal Reserve Board, together with an additional amount at the rate of \$500 per annum to cover the expense to which he will be put in coming to Washington.

There was then presented a revised draft of the regulation, tentatively approved at the meeting on August 4, 1933, with regard to the payment by member banks of interest on deposits, and Mr. Morrill stated that careful consideration had been given to the suggestions made by the

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various Federal reserve banks with regard to the regulation, a number of which had been incorporated in the draft now under consideration.

After discussion, the regulation was approved in the following form, and the Secretary was requested to send copies to all Federal reserve agents with the advice that it has been adopted by the Board and is to be published in the next issue of the Federal Reserve Bulletin and also printed in pamphlet form, and with the request that, in order that member banks may be advised as soon as possible of the provisions of the regulation, each Federal reserve bank issue to each member bank in its district as soon as possible a special circular containing the complete text of the regulation:

REGULATION Q, SERIES OF 1933

PAYMENT OF INTEREST ON DEPOSITS.

SCOPE OF REGULATION

"This regulation relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in the Federal Reserve Board's Regulation D.

SECTION I. STATUTORY PROVISIONS.

"Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, provides in part as follows:

'Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

\* \* \* \* \*

'No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand: Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any

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"certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply to any deposit made by a mutual savings bank, nor to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law.

'The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits, and may prescribe different rates for such payment on time and savings deposits having different maturities or subject to different conditions respecting withdrawal or repayment or subject to different conditions by reason of different locations. No member bank shall pay any time deposit before its maturity, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement.'

"Section 24 of the Federal Reserve Act, as amended by the Act of February 25, 1927, provides in part as follows:

'Such banks may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located.'

## SECTION II. DEPOSITS PAYABLE ON DEMAND.

"(a) Interest prohibited. - Except as hereinafter stated, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit



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"which is payable on demand.

"(b) Exceptions. - This prohibition does not apply to

1. Any deposit which is payable only at an office of such bank which is located in a foreign country.<sup>(1)</sup>

2. Any deposit made by a mutual savings bank.

3. Any deposit of public funds<sup>(2)</sup> made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law.

4. Payment of interest in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before June 16, 1933, and in force on that date and which may not be terminated or modified by such bank at its option or without liability; but no such certificate of deposit or other contract may be renewed or extended unless it be modified to eliminate any provision for the payment of interest on deposits payable on demand; and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to eliminate from any such certificate of deposit or other contract any provision for the payment of interest on deposits payable on demand.

### SECTION III. INTEREST ON TIME DEPOSITS.

"(a) Time deposits. - The term 'time deposits', for the purposes of this section, includes 'time certificates of deposit', 'time deposits, open accounts', and 'postal savings deposits', as defined below:<sup>(3)</sup>

#### "Footnote

- (1) The Philippine Islands, Puerto Rico, Canal Zone, Hawaii and other territories, dependencies or insular possessions of the United States are not foreign countries, within the meaning of the above provision.
- (2) Deposits of moneys paid into State courts by private parties pending the outcome of litigation are not deposits of 'public funds' made by or on behalf of any State, county, school district, or other subdivision or municipality, within the meaning of the above provision.
- (3) Under the provisions of Section 19 of the Federal Reserve Act, time deposits include savings deposits; but, for convenience, savings deposits are dealt with separately in this regulation.

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"1. Time certificates of deposit. - The term 'time certificate of deposit' means an instrument evidencing the deposit with a bank of a certain sum specified on the face of the instrument payable to bearer or to any specified person or to his order -

(i) On a certain date, specified in the instrument, not less than thirty days after the date of the deposit, or

(ii) At the expiration of a certain specified time subsequent to the date of the instrument, in no case less than thirty days, or

(iii) Upon notice in writing which is actually required<sup>(4)</sup> to be given a certain specified number of days, not less than thirty days, before the date of repayment, and

(iv) In all cases only upon presentation and surrender of the instrument.

"2. Time deposits, open accounts. - The term 'time deposits, open accounts' means deposits, other than 'time certificates of deposit', 'postal savings deposits', and 'savings deposits', in respect to which a written contract has been entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than thirty days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case

"Footnote

- (4) Under the provisions of Regulation D, a certificate of deposit with respect to which the bank merely reserves the right to require written notice of not less than thirty days may be classified as a time deposit for the purpose of computing reserves; but interest may not be paid on such a certificate of deposit, because it is in fact payable on demand unless prior to such payment the notice of not less than thirty days is actually required, and because the prohibition in the law upon the payment by a member bank of any time deposit before its maturity clearly contemplates that time deposits (other than savings deposits), upon which interest is payable, must have a definite maturity for at least thirty days prior to payment.



"less than thirty days. (5)

"3. Postal savings deposits. - The term 'postal savings deposits' means deposits in banks which consist of postal savings funds deposited under the terms of the Postal Savings Act, approved June 25, 1910, as amended by the Banking Act of 1933, and which comply with the requirements of paragraph 1 or 2 of this subsection.

"(b) Payment of interest. - Except in accordance with the provisions of this section, no member bank shall pay interest on any time deposit in any manner, directly or indirectly, or by any method, practice or device whatsoever.

"(c) Maximum rate of interest. -

"1. No member bank shall pay interest, accruing after October 31, 1933, on any time deposit or any part thereof at a rate in excess of three per cent per annum, compounded semi-annually, (6) regardless of the basis upon which such interest may be computed, except as provided in paragraph 2 hereof.

"2. A member bank may pay interest on time deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith prior to June 16, 1933 and in force on that date and which may not legally be terminated or modified by such bank at its option or without liability; but no such certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this regulation, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all such certificates of deposit or other contracts into conformity with the provisions of this regulation.

"3. The rate of interest paid by a member bank upon a time deposit shall not in any case exceed (i) the maximum rate prescribed in paragraph 1 of this subsection, or (ii) the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the

"Footnote

(5) A deposit, with respect to which the bank merely reserves the right to require notice of not less than thirty days before any withdrawal is made is not a 'time deposit, open account', within the meaning of the above definition.

(6) This limitation is not to be interpreted as preventing the compounding of interest at other than semi-annual intervals provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at a rate of three per cent per annum when compounded semi-annually.



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"laws of the State in which such member bank is located, whichever may be less.

"(d) Deposits payable within thirty days. - Interest at a rate not exceeding that prescribed in subsection (c) of this section may be paid until maturity upon deposits which were bona fide time deposits at the time of deposit, although they have since become payable within thirty days. On time deposits with respect to which notice of withdrawal shall have been given to the bank interest may be paid until the expiration of the period of such notice at a rate not exceeding that prescribed in subsection (c) of this section. No interest shall be paid by a member bank on any amount which, by the terms of any certificate or other contract or agreement or otherwise, the bank may be required to pay within thirty days from the date on which such amount is deposited in such bank.

"(e) No interest after maturity or expiration of notice. - After the date of maturity of any time deposit, such deposit is a deposit payable on demand, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit, such deposit is a deposit payable on demand and no interest may be paid on such deposit for any period subsequent to the expiration of such notice.

#### SECTION IV. PAYMENT OF TIME DEPOSITS BEFORE MATURITY.

"(a) No member bank shall pay any time deposit except in accordance with the provisions of this section, even though no interest is paid on such deposit.(7)

"(b) No member bank shall pay any time deposit, which is payable on a specified date, before such specified date.

"(c) No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired.

#### "Footnote

- (7) The making of a loan to the owner of a time deposit in a member bank by such bank, or by any other bank, person, partnership or corporation in accordance with any agreement, arrangement or understanding with such bank, for the purpose of evading any prohibition of section IV above, will, to the extent of such loan, be deemed to be a payment of such deposit in violation of such prohibition; and, in any case in which a loan is made to the owner of a time deposit in a member bank by such bank or in accordance with any agreement, arrangement or understanding with such bank, the member bank must be prepared to show clearly that it was made in good faith and not for the purpose of evading any such prohibition.

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"(d) No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal is made, until such required notice has been given and the specified period thereafter has expired.

SECTION V. INTEREST ON SAVINGS DEPOSITS.

"(a) Definition. - The term 'savings deposit' means a deposit which consists of funds accumulated for bona fide thrift purposes<sup>(8)</sup> and in respect to which -

"1. The pass book or other form of receipt, evidencing such deposit, must be presented to the bank whenever a withdrawal is made.

"2. The depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than thirty days before a withdrawal is made, and

"3. The above requirements are included in the bank's printed regulations accepted by the depositor or in some other written contract with the depositor.

"(b) Payment of interest. - Except in accordance with the provisions of this section, no member bank shall pay interest on any savings deposit in any manner, directly or indirectly, or by any method, practice or device whatsoever.

"(c) Maximum rate of interest. -

"1. No member bank shall pay interest, accruing after October 31, 1933, on any savings deposit or any part thereof at a rate in excess of three per cent per annum, compounded semi-annually,<sup>(9)</sup> regardless of the basis upon which such interest may be computed, except as provided in paragraph 2 hereof.

"2. A member bank may pay interest on savings deposits in accordance with the terms of any contract, which was law-

"Footnote

(8) If by reason of the amount of the deposit, the business of the depositor or otherwise, a question arises whether a deposit is properly classified by a bank as a savings deposit, the bank must be prepared to show clearly that it is a deposit consisting of funds accumulated for bona fide thrift purposes and that it otherwise complies with the above definition.

(9) This limitation is not to be interpreted as preventing the compounding of interest at other than semi-annual intervals provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at a rate of three per cent per annum when compounded semi-annually.



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"fully entered into in good faith prior to June 16, 1933, and in force on that date and which may not legally be terminated or modified by such bank at its option or without liability; but no such contract shall be renewed or extended unless it be modified to conform to the provisions of this regulation, and every member bank shall take such action as shall be necessary, as soon as possible consistently with its contractual obligations, to bring all such contracts into conformity with the provisions of this regulation.

"3. The rate of interest paid by a member bank upon a savings deposit shall not in any case exceed (i) the maximum rate prescribed in paragraph 1 of this subsection, or (ii) the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

"(d) Deposits upon which notice of withdrawal is not given.- Interest at a rate not exceeding that prescribed in subsection (c) of this section may be paid upon savings deposits as defined above with respect to which notice of intended withdrawal has not actually been required or given.

"(e) Deposits upon which notice of withdrawal has been given. - Interest at a rate not exceeding that prescribed in subsection (c) of this section may be paid upon savings deposits, with respect to which notice of intended withdrawal may have been given to the bank, until the expiration of the period of such notice.

"(f) No interest after expiration of period of notice. - After the expiration of the period of notice given with respect to the intended withdrawal of any savings deposit, such deposit is a deposit payable on demand and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, unless the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the requirements applicable to savings deposits, in which event the deposit again constitutes a savings deposit after the date upon which such advice is received by the bank.

#### SECTION VI. NOTICE OF WITHDRAWAL OF SAVINGS DEPOSITS.

"(a) A member bank must observe the requirements set forth below in requiring notice of intended withdrawal of any savings deposit, or in waiving such notice, or in repaying any savings deposit, or part thereof, without requiring such notice, whether such notice of intended withdrawal is required to be given in each case by the terms of the bank's contract with the depositor



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"or may, under such contract, be required by the bank at any time at its option.

"1. If a member bank waive such notice of intended withdrawal as to any portion or percentage of the savings deposits of any depositor, it shall waive such notice as to the same portion or percentage of the savings deposits of every other depositor which are subject to the same requirement.

"2. If a member bank pay any portion or percentage of the savings deposits of any depositor, without requiring such notice, it shall, upon request and without requiring such notice, pay the same portion or percentage of the savings deposits of every other depositor which are subject to the same requirement.

"3. If a member bank require such notice before the payment of any portion or percentage of the savings deposits of any depositor, it shall require such notice before the payment of the same portion or percentage of the savings deposits of any other depositor which are subject to the same requirement.

"(b) No member bank shall change its practice with respect to the requiring or waiving of notice of intended withdrawal of savings deposits except after duly recorded action of its board of directors or of its executive committee properly authorized, and no practice in this respect shall be adopted which does not conform to the requirements of paragraph 1, 2, or 3 of subsection (a) of this section.

"(c) No change in the practice of a member bank with respect to the requiring or waiving of notice of intended withdrawal of savings deposits subject to the same requirement shall be made until a reasonable time following the last preceding change in the practice with respect to savings deposits subject to the same requirement shall have elapsed.

"(d) A member bank must observe the requirements of this section with respect to savings deposits even though no interest be paid on such deposits. (10)

"Footnote

(10) The making of a loan to the owner of a savings deposit in a member bank by such bank, or by any other bank, person, partnership or corporation in accordance with any agreement, arrangement or understanding with such bank, for the purpose of evading any requirement of

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"Footnote (continued)

- (10) this section, will, to the extent of such loan, be deemed to be a payment of such deposit or waiver of notice with respect thereto in violation of such requirement; and, in any case in which a loan is made to the owner of a savings deposit in a member bank by such bank or in accordance with any agreement, arrangement or understanding with such bank, the member bank must be prepared to show clearly that it was made in good faith and not for the purpose of evading any requirement of this section."

Governor Black then stated that he had just talked to Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, over the telephone, who had advised that the board of directors of the bank, at its meeting on August 25, had decided to defer the selection of a governor of the bank until the meeting of the directors in January of next year, that during the interim Deputy Governor Preston had been designated as Acting Governor, and that, subject to approval by the Federal Reserve Board, his salary had been fixed at the rate of \$34,000 per annum for the balance of the current year. Governor Black also stated that Mr. Stevens had advised that the board of directors was in session and would like to be advised as to whether the Board would approve the salary fixed for Mr. Preston.

During the ensuing discussion, Governor Black called Mr. Stevens on the telephone and stated that the Board did not understand why the board of directors should not take definite action with regard to the appointment of a governor of the bank, or why Deputy Governor McKay should not be continued as acting Governor, as the Board understood he had been acting in that capacity. Mr. Stevens replied, Governor Black stated, that a decision has not been reached by the directors as to the action to be taken after the first of the year with regard to the appointment of a governor

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of the bank as it is possible that Governor McDougal may return, and that Deputy Governor McKay had never been designated as acting governor of the bank, although he had been selected as the bank's representative on the Federal Open Market Committee.

Mr. Szymczak stated that he had understood from Mr. Stevens that nothing would be done with regard to the appointment of a governor of the bank until some time during the first two weeks in September, after the return of Mr. Simpson, Deputy Chairman of the board of directors, to Chicago, and of Mr. Miller, Chairman of the Board's Committee on District No. 7, to Washington, and that it was his understanding that Mr. Simpson was not at the directors meeting on August 25.

At the conclusion of the discussion, it was understood that Governor Black would request Mr. Stevens to advise the Board fully in a letter as to the action taken by the Board of Directors of the bank. It was also decided that upon receipt of such letter it should be referred to the Chicago Committee consisting of Messrs. Szymczak and Miller for consideration.

Upon inquiry by Mr. Hamlin as to the status of the proposed letter to the Attorney General transmitting the report made by the Board's Division of Examinations with regard to irregularities in the fiscal agency department of the Federal Reserve Bank of Chicago, Mr. Morrill stated that as a result of a discussion at a meeting of the Board on April 17, 1933, at which the Chairman of the Board was in attendance, the letter was referred to him for consideration and had not been returned. Mr. Morrill also stated that he understood that Under Secretary Ballantine had been opposed to sending the letter and that the matter had been laid aside, and,



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because of the illness of the Secretary of the Treasury, nothing was done regarding the letter until recently when Under Secretary Acheson took the matter up and asked Mr. Harlan, Financial Legal Assistant to the Secretary, to review the matter, which he is now doing.

Reports of Standing Committee dated August 21, 22, 23, 25, 26 and 28, 1933, requesting approval of the following changes in stock at Federal reserve banks:

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 1.</u>		
First National Bank of Pittsfield, Maine.	72	
First National Bank of Waterville, Maine.	216	
Farmington National Bank, Farmington, N. H.	<u>33</u>	321
<u>District No. 3.</u>		
Fulton County Bank, McConnellsburg, Pa.	90	90
<u>District No. 6.</u>		
First National Bank in Tarpon Springs, Florida.	33	33
<u>District No. 12.</u>		
Medford National Bank, Medford, Oregon.	66	66
	<u>Total</u>	<u>510</u>
<u>Applications for ADDITIONAL Stock:</u>		
<u>District No. 4.</u>		
National Bank of London, London, Kentucky. (Increase in capital, partly offset by decrease in surplus)	8	8
<u>District No. 6.</u>		
Liberty National Bank and Trust Company, Savannah, Ga. (Increase in surplus)	1	
First National Bank, McComb City, Miss. (Increase in surplus)	<u>15</u>	16
<u>District No. 9.</u>		
First National Bank, Carlton, Minnesota. (Increase in capital, preferred)	18	18
	<u>Total</u>	<u>42</u>

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<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 3.</u>		
Millersville National Bank, Millersville, Pa. (Insolvent)	36	36
<u>District No. 4.</u>		
First National Bank, Ansonia, Ohio. (Insolvent)	20	
First National Bank of Latrobe, Pa. (V.L.Suc. by First National Bank in Latrobe)	<u>240</u>	260
<u>District No. 6.</u>		
Chattanooga National Bank, Chattanooga, Tenn. (Being liquidated through conservator)	1,500	1,500
<u>District No. 7.</u>		
Citizens National Bank, Mulberry, Ind. (Insolvent)	42	
Farmers National Bank, Taylorville, Illinois. (Insolvent)	<u>92</u>	134
<u>District No. 8.</u>		
First National Bank of Marissa, Illinois. (V.L.Suc. by The First National Bank, Marissa, Ill.)	39	39
<u>District No. 9.</u>		
First National Bank, Le Sueur, Minn. (Insolvent)	18	18
<u>District No. 12.</u>		
First National Bank, Rialto, California. (Insolvent)	<u>48</u>	<u>48</u>
	<u>Total</u>	<u>2,035</u>

Approved.

Thereupon the meeting adjourned.

*Walter Morley*  
Secretary.

Approved:

*E. R. Black*  
\_\_\_\_\_  
Governor.