

A meeting of the Federal Reserve Board was held in Washington on Saturday, September 9, 1933, at 10:45 a. m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Martin, Assistant to the Governor  
Mr. Wyatt, General Counsel  
Mr. Chase, Assistant Counsel

The minutes of the meetings of the Federal Reserve Board held on July 13, 21, 22, 25, 27, and 28, and August 1, 2, 3, 4, and 15, 1933, were approved.

The minutes of the meetings of the Federal Reserve Board with the Federal Open Market Committee held on July 20 and 21, 1933, were approved.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on August 9 and 21, 1933, were approved and the actions recorded therein were ratified unanimously.

The minutes of the meetings of the Federal Reserve Board with the Federal reserve agents and representatives from their departments held on August 15 and 16, 1933, were approved.

The Board then considered and acted upon the following matters:

Letter dated September 7, 1933, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated September 6, 1933, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston,

9/9/33

-2-

26

September 7, 1933, from Mr. Newton, Chairman of the Federal Reserve Bank of San Francisco, and September 8, 1933, from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, 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.

Telegram dated September 8, 1933, from Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, advising that the board of directors of the bank, at its meeting on that date, voted to establish the following schedule of effective buying rates on bankers' acceptances, no other changes being made in the bank's existing schedule of rates of discount and purchase:

|                 |        |
|-----------------|--------|
| 1 to 120 days   | 1%     |
| 121 to 180 days | 1 1/4% |
| Repurchase      | 1%     |

Without objection, noted with approval.

Memorandum dated September 1, 1933, from Mr. Wyatt, General Counsel, recommending the appointment of Miss Jeanne Howard Carroll as a stenographer in the office of General Counsel, with salary at the rate of \$1,560 per annum, effective as of the date upon which she enters upon the performance of her duties; the recommendation having been approved by five members of the Board on September 6, 1933.

Approved.

Telegraphic reply on September 6, 1933, approved by five members of the Board, to a letter dated September 1 from Mr. Curtiss, Federal

9/9/33

-3-

Reserve Agent at Boston, requesting approval of the appointment of Mr. John A. Reed as an examiner in the Federal reserve agent's department of the bank, with salary at the rate of \$3,300 per annum. The reply stated that the Board approves the appointment referred to with salary at the rate stated.

Approved.

Telegraphic reply on September 7, 1933, approved by four members of the Board, to a letter dated September 5 from Mr. Hoxton, Federal Reserve Agent at Richmond, requesting approval of the appointment of Mr. Edmund J. Smith as an examiner in the Federal reserve agent's department of the bank, with salary at the rate of \$2,600 per annum. The reply stated that the Board approves the appointment referred to with salary at the rate stated.

Approved.

Letter dated September 2, 1933, to Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, approved by five members of the Board, stating that, in accordance with the recommendation contained in his letter of August 16, the Board approves changes in the personnel classification plan of the bank to provide for increases in the maximum salaries of four positions at the head office of the bank and two positions at the Cincinnati branch, and for the establishment at the head office of a failed banks function in the loans and discounts department with ten new positions in that department.

Approved.

Telegraphic reply on September 6, 1933, approved by six members of



9/9/33

-4-

28

the Board, to a telegram dated August 31 from Mr. Newton, Federal Reserve Agent at San Francisco, with regard to the employment of a trust examiner in the Federal reserve agent's department of the bank in accordance with the recommendation of the Federal Reserve Agents' Conference at its meeting on August 16, 1933. The reply referred to the Board's letter of August 31, 1933 (X-7576), and stated that the Board feels that the agent should have the services of a high caliber trust examiner available to enable him to discharge his responsibility in connection with examinations of trust departments of banks applying for membership, in connection with applications for trust powers by national banks, and in connection with examinations of State member banks with trust departments. The reply also stated that, while it is the opinion of the Board that the examination of trust departments of national banks is primarily the responsibility of the Comptroller of the Currency, it is felt that the trust examiner in the agent's department might also participate in examinations of trust departments of particular national banks where it would be to the mutual advantage of the agent and the Comptroller for him to do so.

Approved.

Reply on September 2, 1933, approved by six members of the Board, to a letter dated August 26 from Mr. Austin, Federal Reserve Agent at Philadelphia, with regard to his connection with the Theodore Presser Company as a director. The reply noted that the company is engaged principally in the business of selling music by mail to teachers throughout the United States and that it controls the Oliver Ditson Company and the John Church Company, both publishers of music, and stated that, in view of these circumstances, and notwithstanding the agent's statement that all of the



9/9/33

-5-

29

profits of the Theodore Presser Company are used for the benevolent purposes for which the Presser Foundation was created, it is felt that the company falls within the scope of the Board's letter of April 29, 1933, X-7425, and consideration should be given by the agent to the discontinuance of his service as a director of the company, and that it will be appreciated if the agent will advise the Board of the action he decides to take in this connection. The reply also stated that the Board interposes no objection to the agent continuing as a trustee of the Presser Foundation.

Approved.

Reply on September 6, 1933, approved by five members of the Board, to a letter dated August 28 from Mr. Stevens, Federal Reserve Agent at Chicago, in regard to indebtedness of employees in the Federal reserve agent's department at the Federal Reserve Bank of Chicago. With respect to the suggestion contained in the last paragraph of the agent's letter that, inasmuch as under the provisions of the Banking Act of 1933 executive officers of member banks are given a period of two years in which to divest themselves of any indebtedness to such banks, the Board might properly give employees of the Federal reserve banks a like time in which to divest themselves of indebtedness to member banks, the reply stated that the Board looks upon the matter as one involving a fundamental principle applicable particularly to the Federal reserve agents and the members of their staffs because of their peculiar responsibilities under the Federal Reserve Act; that the Board's views upon this matter were formulated without reference to any legislation that might be found subsequently in the Banking Act of 1933; that, moreover, it is apparent that Congress must

9/9/33

-6-

have been influenced by considerations with respect to the provisions of the Banking Act of 1933 relating to indebtedness of executive officers of member banks which would be somewhat different from those entering into the determination of the policy with respect to borrowings of Federal reserve agents and the members of their staffs; and that, consequently, the Board does not consider that an implication should be drawn from that Act that employees of the Federal reserve agents should be given two years within which to clear up indebtedness if the settlement thereof may reasonably be accomplished in less than that period of time and will expect that every endeavor will be made by them to accomplish this result without regard to the two year limit mentioned. The reply also stated that, on the other hand, where there are exceptional circumstances such as the agent indicates with respect to Messrs. Patterson and Pitman, the indebtedness having been incurred before they became members of the staff of the Federal reserve agent, and if it appears that they execute in good faith to the best of their ability plans to reduce their indebtedness as rapidly as possible, even though they might take more than two years, the Board will take no further action unless it should appear from circumstances developing at a later date that the existence of such indebtedness is incompatible with the proper rendition of the services for which they were employed. The reply stated further that the Board feels that in every case when a new employee is to be taken into the staff of the Federal reserve agent the question of any outstanding indebtedness on his part should be investigated and considered carefully before any commitment is made with respect to his employment, and that such indebtedness, if any, should be brought to the

9/9/33

-7-

31

attention of the Board when a recommendation is submitted to it to approve the employment of the person involved.

Approved.

Reply on September 8, 1933, approved by five members of the Board, to a letter dated August 31 from Mr. Wood, Federal Reserve Agent at St. Louis, inclosing additional reports of indebtedness of members of his staff and stating that he will obtain and forward to the Board a report of Mr. Frank Cannapell who was absent from the bank on account of illness when the agent's letter was written. The reply noted that the report submitted by Miss Mary E. Tolmie shows indebtedness incurred for the purpose of making investments, and stated that, if any of these investments include obligations of banking institutions or their subsidiaries or affiliates, it is requested that the agent so advise the Board. The reply also referred to a memorandum inclosed with the agent's letter from Mr. F. J. Mueller, chairman of the board of the Four-Four Savings and Loan Club, with regard to the loan policies of the club, and stated that the Board has noted the statements made therein with regard to the policy of the club in connection with loans for the purpose of purchasing securities and automobiles, and that it is assumed from the statements contained in Mr. Mueller's memorandum that the loan activities of the club are confined entirely to the employees of the Federal reserve bank and its branches and that advances are not made under any circumstances to any outside parties, but that it will be appreciated if the agent will confirm this understanding.

Approved.

Letter dated September 2, 1933, to the board of directors of the



9/9/33

-8-

32

"Southern Arizona Bank and Trust Company," Tucson, Arizona, approved by five 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 Dallas 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 September 7, 1933, to the board of directors of the "Sedalia Bank and Trust Company," Sedalia, Missouri, approved by five 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 St. Louis 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.

Telegraphic reply on September 8, 1933, approved by six members of the Board, to a letter dated August 25 from Deputy Governor Clerk of the Federal Reserve Bank of San Francisco requesting advice as to whether a nonmember State bank reorganized under the Bank Stabilization Act of the State of Washington may be admitted to membership in the Federal Reserve System and whether State member banks in Washington reorganized under such Act may be permitted to retain their membership. The reply stated that it is understood from a copy of the Bank Stabilization Bill previously forwarded

9/9/33

-9-

to the Board that such Act authorizes the Supervisor of Banking to propose a plan for the reorganization of a State bank upon the request of the directors of the bank and that such a plan becomes effective as to all unsecured creditors of the bank upon approval of the plan by creditors having unsecured demands against the bank aggregating now less than 75% of the unsecured demands of all creditors, but that the Act does not attempt to prescribe the detailed provisions of any such plan and it is not clear what liability, if any, will be incurred by the bank to pay waived deposits in any such case; and that, in the circumstances, the Board cannot attempt at this time to advise whether it will admit to membership a State bank reorganized under such Bank Stabilization Act. The reply also stated that if the Supervisor of Banking of Washington so desires, in view of possible applications for membership, the Board will be glad to consider all features of any proposed plan of reorganization under the Bank Stabilization Act upon receipt of detailed information with regard to all of its features and copies of the plan and of all agreements which will be executed under such plan; that any information which is furnished to the Board in this matter should be accompanied by the recommendation and views of the Federal reserve agent and a committee of the Federal reserve bank and the opinion of its counsel after careful consideration of all aspects of the plan of reorganization, with particular reference to whether such plan of reorganization complies with requirements of the State law and is legally effective and as to what liability the bank will have for the payment of waived deposits; and that, in connection with any plan submitted, the Board would like to be advised especially as to whether the legal effectiveness

9/9/33

-10-

34

of any such plan of reorganization under the provisions of the Bank Stabilization Act or any similar law has been determined by the courts of Washington or whether any question with reference to the effectiveness of any such plan of reorganization is now pending in such courts. The reply stated further that, in case a member bank proposes to reorganize under the Bank Stabilization Act of Washington, full information with regard to such plan of reorganization should be obtained in order to determine whether it will require the Board's approval or will result in any violation of the Federal Reserve Act, the Board's Regulations, or the conditions of membership to which the particular bank is subject; that, upon receipt of such information together with the recommendation of the Federal reserve bank and the opinion of counsel, the Board will be glad to consider whether the membership of the bank is affected or the Board's approval is required; that the question as to whether a license should be issued to any member bank so reorganized is a question for determination by the Secretary of the Treasury upon recommendation of the Federal reserve bank; and that it is suggested that, if it has not already done so, the Federal reserve bank communicate with the Supervisor of Banking of Washington and advise him of the Board's position in the matter and its views with regard to the reorganization of banks applying for membership, particularly as set out in its letters of August 14, 1933 (X-7549), August 21, 1933 (X-7556), and August 22, 1933 (X-7557). The reply added that circumstances comparable with those discussed in the Board's letter of August 14 were discussed in the Board's letter of June 20, 1933 (X-7455), and that, in connection with a restriction in the Stabilization Act on the



9/9/33

-11-

payment of any dividends until waived deposits have been paid, attention is called to the last paragraph on page 3 of the Board's letter X-7557-c.

Approved.

Letter dated September 8, 1933, to Mr. Case, Federal Reserve Agent at New York, approved by five members of the Board, replying to Assistant Federal Reserve Agent Dillistin's letter of August 17 transmitting the application of the conservator of the Harriman National Bank and Trust Company, New York, New York, for the cancelation of 2,400 shares of stock of the Federal Reserve Bank of New York outstanding in the name of that bank. The reply stated that the Board approves the application referred to; that it has been noted that the Federal Reserve Bank of New York wishes to obtain the consent of the conservator to the retention of a part of the proceeds resulting from cancelation of the Federal reserve bank stock held by the Harriman National Bank and Trust Company until it has been determined whether the Federal reserve bank will have further claims against that bank and any such claims have been settled; that the Board has no objection to the Federal reserve bank holding a part of these proceeds for its protection for a reasonable length of time; and that it is suggested that, if the agent has not already done so, he obtain an opinion from counsel for the Federal reserve bank as to the necessity of holding such proceeds in view of the circumstances involved in the case and the length of time for which they should be held in order to afford adequate protection for the Federal reserve bank. The reply also stated that, if the conservator should object to the retention for a reasonable period of a part of the proceeds of the stock, it is suggested that the cancelation of an equivalent amount of stock be deferred and the Board be advised in the premises, together with the agent's recommendation.

Approved.

9/9/33

-12-

36

Telegram dated September 7, 1933, to Mr. Newton, Federal Reserve Agent at San Francisco, approved by four members of the Board, replying to Assistant Federal Reserve Agent Sargent's letter of August 28 inclosing an application of the Coast National Bank in Fort Bragg, California, for 36 shares of stock of the Federal Reserve Bank of San Francisco, submitted in lieu of the bank's application for a like number of shares forwarded with Mr. Sargent's letter of July 1, 1933, and approved by the Board on July 5, and stating that it appears that the new application is necessary to comply with certain changes required by the Comptroller of the Currency to complete the organization of the new bank. The reply stated that the Board approves the amended application of the national bank for Federal reserve bank stock and revokes the approval granted on July 5 of the previous application.

Approved.

Letter dated September 2, 1933, to Mr. Curtiss, Federal Reserve Agent at Boston, approved by five members of the Board, referring to the application of The Tradesmens National Bank of New Haven, Connecticut, for permission to exercise trust powers, and to the question raised by counsel for the Federal Reserve Bank of Boston as to whether the capital and surplus of the bank are sufficient to make it eligible to receive permission to exercise trust powers under the provisions of section 11(k) of the Federal Reserve Act; the bank having common capital stock amounting to \$150,000, preferred stock amounting to \$200,000, and surplus of \$50,000. The letter noted that while there are some trust companies in Connecticut heretofore organized in a place the size of New Haven which have a capital of less than \$200,000, the Connecticut law now in effect

9/9/33

-13-

requires a common capital stock of not less than \$200,000 with a surplus of at least 100% of the amount of such capital stock for the organization of Connecticut institutions having trust powers when located in a city the size of New Haven, and stated that it is apparent, in view of the provisions of section 11(k) of the Federal Reserve Act, that it is contemplated that national banks exercising trust powers shall be on a basis of equality with State institutions exercising such powers; that the Board does not feel that it properly can grant the right to exercise trust powers to a national bank the capital of which is less than that required by the State law in effect at that time of State banks, trust companies and other corporations exercising such powers; that, in these circumstances, a national bank located in a city the size of New Haven must have a common capital stock of at least \$200,000 and a surplus of at least 100% of the amount of its common capital stock in order to be eligible to receive permission to exercise trust powers; and that, accordingly, the Board will not at this time take any action on the application of The Tradesmens National Bank of New Haven for permission to exercise trust powers. The letter also stated that if the bank increases its common capital stock and surplus to the required amounts, the Board will be glad to consider a new application from the bank, accompanied by the agent's recommendation as to the action which should be taken thereon. The letter stated further that it may be noted that under the provisions of the Bank Conservation Act of March 9, 1933, national banks are authorized to issue preferred stock, and section 303 of that act provides that "the term 'capital' as used in provisions of law relating to the capital of national banking associations



9/9/33

-14-

shall mean the amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired", but that the Board feels that where a State law specifically requires that State institutions exercising trust powers shall have a specified amount of their capital in common stock, national banks applying for permission to exercise trust powers should be required to conform to such requirements of the State law.

Approved.

Memorandum dated September 1, 1933, from Mr. Wyatt, General Counsel, recommending that there be published in the September issue of the Federal Reserve Bulletin, rulings in the form attached to the memorandum, all of which contain the substance of rulings previously approved by the Board on the following matters:

- Issuance of non-assessable stock by State member banks.
- Loans by member banks to affiliates on security of real estate mortgages.
- Capital debentures not considered "capital" in determining eligibility for membership.
- Interest on deposits made by cooperative banks in member banks.
- Interest on deposits of trust funds.
- Effect of Section 8A of Clayton Antitrust Act, as amended by Section 33 of the Banking Act of 1933.

The recommendation was approved by five members of the Board on September 7, 1933.

Approved.

Letter dated September 6, 1933, to Mr. Stewart, Secretary of the Federal Reserve Agents' Conference, submitting for his consideration, in accordance with the request contained in his letter of August 24, certain changes in a tentative draft, inclosed with his letter, of the minutes of

9/9/33

-15-

39

the Federal Reserve Agents' Conference held in Washington on August 15 and 16, 1933.

Approved.

Reply on September 2, 1933, approved by five members of the Board, to a letter dated July 18 from Mr. W. T. Locker, Secretary and Treasurer of the Jenkintown Bank and Trust Company, Jenkintown, Pennsylvania, requesting advice as to whether the payment of interest on deposits payable on demand and made by the Treasurer of the County of Montgomery, Pennsylvania, would come within the prohibition against the payment of interest on deposits payable on demand contained in section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933. The reply stated that the Board understands that, under the statutes of Pennsylvania, counties are divided into classes according to population, and that Montgomery County is a county of the third class; that it appears that section 401 of the General County law, approved May 2, 1929, as amended, which is applicable to a county of the third class, provides that if sinking fund moneys of a county are deposited in banks designated as county depositories, "not less than 2 per centum interest on daily balances shall be paid to said Commission for the use of such moneys"; and that it is the understanding of the Board that there are no other statutory provisions requiring the payment of interest on county funds. The reply also stated that section 19 of the Federal Reserve Act, as amended, prohibits the payment of interest on any deposit of public funds made by or on behalf of any county which is payable on demand, unless payment of interest with respect thereto is required under State law, or by an existing

9/9/33

-16-

40

valid and binding contract which was entered into in good faith prior to June 16, 1933, and which was in force on that date; and that, in accordance with that section and in the absence of any such contract, it would appear that a member bank may not lawfully pay interest on deposits of county funds made by the Treasurer of the County of Montgomery which are payable on demand, unless the funds in question are sinking fund moneys of such county.

Approved.

Reply on September 6, 1933, approved by five members of the Board, to a letter addressed under date of June 21 to the Comptroller of the Currency by Mr. L. S. Omohundro, Cashier of The Merchants and Planters National Bank, Sherman, Texas, and referred to the Board for reply, requesting advice as to whether interest may be paid for a six months' period ending June 30, 1933, on certain funds deposited in the national bank and payable on demand. The reply stated that 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, unless it is obligated to do so under a bona fide and binding contract which was in force on June 16, 1933, or unless the deposit in question is one of a class excepted by statute; that, from the statements in Mr. Omohundro's letter, it would appear that the oral understanding to allow interest was not sufficiently definite in respect to its duration and other essentials to constitute it a valid and binding contract; and that in such case interest may not be paid on the deposits in question for a period after June 15, 1933, unless such deposits are of a class excepted



9/9/33

-17-

41

by statute.

Approved.

Reply on September 7, 1933, approved by five members of the Board, to a letter dated July 18 from Mr. W. G. Coapman, Secretary of the Wisconsin Bankers Association, Milwaukee, Wisconsin; the reply reading as follows:

"The Comptroller of the Currency has referred to the Federal Reserve Board for reply your letter of July 18, 1933, in which you submit an inquiry as to whether a member bank of the Federal Reserve System may lawfully 'allow a credit for a balance in a checking account merely for the purpose of arriving at the cost to charge the depositors'. From the information in your letter, the Board understands that if the interest computed on any such balance is in excess of the amount of charges against such account, the bank pays no interest to the depositor, but presumably, it does pay or absorb the charges against the account. In the event that the interest computed on any such account is less than the charges against the account, the depositor is required to pay the bank the actual cost of carrying the account in accordance with a schedule of the bank. It does not appear whether the sum the depositor is required to pay is fixed with reference to the amount of interest credited on his balance, or otherwise bears any relationship to the amount of such interest.

"The prohibition against the payment by a member bank of interest on any deposit payable on demand which is contained in Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, applies not only to the direct payment of interest, but also to the indirect payment of interest in any manner or by any method, practice or device whatsoever. The payment or absorption of charges or other expenses by a member bank, in an amount which varies with or bears a substantially direct relation to the amount of a deposit payable on demand, constitutes an indirect payment of interest on such deposit within the meaning of this section and is within the prohibition thereof.

"The information contained in your letter is not sufficiently complete to enable the Board to advise you definitely whether the instant situation would come within the prohibition of said Section 19, as amended. However, it seems that in certain cases charges and expenses are absorbed in lieu of the payment of interest; that the question of the absorption of such charges is determined with reference to the amount of the deposit balance; and, therefore, that the absorption of such charges is directly related to the amount of such deposit balance. In such circumstances, it would appear that the absorption of such

9/9/33

-18-

42

"charges would constitute an indirect payment of interest and would be unlawful.

"You are further advised that in any case in which a member bank pays or absorbs charges or other expenses in connection with any deposit payable on demand, it must be prepared to show that such payment or absorption of charges or expenses is not a device to evade the statutory prohibition."

Approved.

Reply on September 8, 1933, approved by five members of the Board, to a letter addressed under date of July 15 to the Comptroller of the Currency by Mr. W. E. Frank, Cashier of the First National Bank, Luray, Virginia, and referred to the Board for reply. The letter stated that the national bank was reorganized and reopened on February 25, 1932, and certificates of deposit were issued for 80% of each deposit, one fourth of which was made payable every six months; that two payments have now been made; that the bank desires to retire the remaining certificates at the maturity of the third payment; and that advice is requested as to whether, under the provisions of the banking act of 1933, the outstanding certificates may be paid before maturity. The reply inclosed a copy of Regulation "Q" and stated that the Board does not have sufficient information as to the terms of the certificates of deposit to determine whether they are time certificates of deposit within the meaning of paragraph I of subsection (a) of Section III of the Regulation, but that, if they are, they cannot lawfully be paid before their maturity, even though the same privilege is extended to all depositors.

Approved.

Reference was then made to a letter dated September 1, 1933, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, transmitting

9/9/33

-19-

a letter dated August 30, 1933, from Mr. John A. Law, Spartanburg, South Carolina, stating that, while his interest in the Charlotte Branch of the Federal reserve bank has always extended far beyond his part time relations with the Central National Bank of Spartanburg, his recognition of the impracticability of the bank asking for license to reopen in March of this year occasioned his suggestion at that time that he tender his resignation as a director of the Charlotte Branch, and that, now that his connection with the national bank is being terminated in connection with its liquidation, he feels that he should again and more formally tender his resignation. The letter from Mr. Hoxton recommended that the Board promptly accept Mr. Law's resignation as there appears to have been considerable criticism of him since the banking holiday for the reason that the Central National Bank of Spartanburg was not licensed to reopen and is now in the hands of a receiver.

The Secretary was requested to advise Mr. Law that the Board has accepted, as of this date, his resignation as a director of the Charlotte Branch of the Federal Reserve Bank of Richmond tendered in his letter of August 30, 1933, and to advise Mr. Hoxton that he will be informed in due course of the selection of a successor to Mr. Law.

There was referred to the Committee on District No. 5, for recommendation to the Board, the matter of the selection of a director of the Charlotte Branch for the unexpired portion of the term ending December 31, 1933, to succeed Mr. Law.

Mr. Morrill referred to the statement made by him at the meeting of the Board on August 29, 1933, with regard to the proposed letter to the Attorney General of the United States transmitting the reports submitted to the Board by the Division of Examinations in connection with certain irregularities in the fiscal agency department of the Federal Reserve Bank of Chicago. He stated that following that meeting he had inquired of Mr.



9/9/33

-20-

44

Harlan, Financial Legal Assistant to the Secretary of the Treasury, with regard to the status of the matter, and that Mr. Harlan had advised that he had all of the papers together and that, while he had been unable to read them because of his being occupied with the regulations on gold recently promulgated by the Treasury Department, he intended to expedite his consideration of the matter as much as possible, as Under Secretary Acheson has requested him to submit a report regarding it.

Mr. Morrill then stated that under date of August 21, 1933, Under Secretary of the Treasury Acheson addressed a letter to the governors of all Federal reserve banks stating that since June 30, 1921, the Treasury Department has reimbursed the Federal reserve banks for expenses incurred on account of new issues of securities, such as personal services, printing, postage, telegraph and telephone services, and miscellaneous items, but not for other fiscal agency expenses; that the President has directed that Government expenditures be reduced to absolute minimum requirements; that with this purpose in view the Secretary of the Treasury has assented to the proposal of the Director of the Bureau of the Budget that for the fiscal year beginning July 1, 1933, there shall be a reduction of 10% in all expenditures of the department in addition to the reduction of 15% in the compensation of all officers and employees; that this reduction applies to all appropriations including the appropriation for expenses of loans, a part of the expenditures from which are for reimbursing Federal reserve banks for their fiscal agency expenses; and that the Treasury, therefore, is asking the cooperation of the Federal reserve banks in reducing the amount of these reimbursements so far as is possible. The letter also

9/9/33

-21-

stated that, while the department will continue to reimburse Federal reserve banks for any direct additional expenses, such as printing and postage, which are incurred solely on account of new issues of securities at the time of issue, it is felt that other items which do not involve direct expenses, such as personal services, should not be included in claims for reimbursement; that after an initial issue of new securities continuing expenses would be absorbed by Federal reserve banks on the same basis as the expenses of old issues are now absorbed, that in presenting the situation for the consideration of Federal reserve banks, it is felt that they may be relied on to cooperate fully in reducing the department's expenditures; and that an expression of views will be appreciated.

Mr. Morrill stated that he understood replies had been received by the Treasury department from three or four governors; that a letter has been addressed to the Board by the Federal Reserve Bank of Cleveland objecting to the proposed procedure, particularly as it would involve a very heavy expenditure on the part of Federal reserve banks in the event of a large issue of securities; and that Governor McKinney of the Federal Reserve Bank of Dallas had called him on the telephone advising that the proposal was objectionable to him and that he intended to address a letter to the Under Secretary of the Treasury setting forth his opinion, with a copy of such letter to the Federal Reserve Board. Mr. Morrill also stated that he had been advised that, when Mr. Acheson's letter was being prepared, the question was raised in the Treasury Department as to whether the Board should be consulted regarding the matter, but that it had been determined to send the letter without taking it up with the Board or any member of its staff.

9/9/33

-22-

46

During the ensuing discussion it was pointed out that the enlarged Treasury financing operations have very greatly increased the amount of work being done by the Federal reserve banks as fiscal agents for the Government, and that the procedure proposed in Mr. Acheson's letter would entail large expenditures on the part of the Federal reserve banks for which they would receive no reimbursement, and the question was raised as to what position the Board should take in the matter.

At the conclusion of the discussion, Mr. Wyatt, General Counsel, was requested to submit a formal opinion as to whether under Section 15 of the Federal Reserve Act, which provides that the Federal reserve banks shall act as fiscal agents of the United States when required to do so by the Secretary of the Treasury, the Secretary of the Treasury has authority to require the banks to absorb expenditures incident to their service as fiscal agents, or whether the Federal reserve banks are entitled to reimbursement for such expenditures.

The Secretary was requested to obtain from the Federal reserve banks copies of their replies to Mr. Acheson's letter of August 21, and in cases where replies have not been made to obtain statements as to their position in the matter, and to advise Under Secretary of the Treasury Acheson that when this information is received the matter will be considered and the Under Secretary advised of the Board's position with regard thereto.

There was then presented a letter dated September 6, 1933, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, stating that at the regular meeting of the board of directors on that date it was voted, subject to the approval of the Federal Reserve Board, to authorize the governor to reimburse the Committee on Reserve Bank Directors (consisting of two members from Massachusetts and one from each other State in the district) for their expenses in attending meetings of the committee held at the bank, under a resolution adopted at the stockholders' meeting on October 21, 1925, and amended at the stockholders' meeting on November 9, 1928, for the purpose of making recommendations to member banks as to nominations of



9/9/33

-23-

47

Class A and Class B directors in regular or special elections. Mr. Curtiss' letter stated that the function of the Committee on Reserve Bank Directors is purely advisory and that it makes, in regular and in special elections, recommendations to member banks of one or more names of persons to be nominated by member banks for Class A and Class B directors of the Federal Reserve Bank of Boston. Mr. Morrill stated that, while the Federal Reserve Board in the past has approved the payment by the Federal Reserve Bank of Boston of the expenses incurred by not more than one representative of each member bank in attending the annual meeting of the stockholders of the Federal Reserve Bank of Boston, this is the first time the Board has been requested to approve the reimbursement of members of the Committee on Reserve Bank Directors for the expenses incurred by them in attending meetings of the committee.

A discussion ensued, at the conclusion of which Mr. Curtiss' letter was referred to the Committee on District No. 1 for recommendation to the Board.

There was then presented a letter dated September 8, 1933, from Mr. Case, Federal Reserve Agent at New York, stating that in response to the Board's request of August 31 that steps be taken immediately by each Federal reserve agent to arrange for the employment of a thoroughly trained and competent trust examiner, he had given much thought to the problem and regards it as of the highest importance that the right type of man be secured; that since there are in the Second Federal Reserve District many large institutions it is particularly desirable that he appoint for this important work a man of prestige and standing in the community; that such a man should be of mature years; and that it is thought that he should be appointed for a limited period in order that he may develop an effective

9/9/33

-24-

48

organization of younger men to carry on the work in the future. The letter also stated that, after careful consideration and consultation with the officers and directors of the New York bank, the Federal reserve agent recommends to the Board the appointment, as trust examiner in the Federal reserve agent's department, of Mr. Orrin R. Judd for a period of two years, with salary at the rate of \$12,000 per annum. The letter contained a statement of Mr. Judd's experience and qualifications as a trust examiner and inclosed a copy of a letter received from him under date of September 6 setting forth his training and experience, and copies of letters from bankers and an attorney in New York with regard to Mr. Judd.

Mr. Miller stated that he felt that Mr. Case's letter should be referred to Mr. Paulger, Chief of the Division of Examinations, with the request that he have a personal interview with Mr. Judd and satisfy himself as to the desirability of his appointment as trust examiner at the Federal Reserve Bank of New York, and he expressed the opinion that, in view of the responsibility of the Board in connection with examination work, great care should be taken in the selection of examiners in order that the examining forces at the respective Federal reserve banks may be developed to a point where they may be regarded as being satisfactory representatives of the Federal Reserve Board.

A discussion of Mr. Miller's suggestion followed, and at its conclusion Mr. Case's letter was referred to Mr. Paulger with the request that he interview Mr. Judd, look carefully into his qualifications, and submit a recommendation to the Board with regard to his appointment.

In addition, the Secretary was requested to prepare, for the consideration of the Board, a letter to the Federal reserve agents at all Federal reserve banks stating that, in the future, all recommendations with regard to the appointment of examiners will be submitted to the Chief of the Board's Division of Examinations for investigation and recommendation, and that

9/9/33

-25-

in submitting future recommendations to the Board for such appointments, full and detailed information should be furnished with regard to the experience and qualifications of each appointee.

At this point Messrs. Leonard and Chamberlin, Federal Reserve Examiners, joined the meeting.

Reference was made to a memorandum from the Comptroller of the Currency dated July 26, 1933, recommending approval by the Board of an application filed by the Old National Bank and Union Trust Company of Spokane, Washington, for permission to reduce its capital stock from \$1,500,000 to \$500,000 as a part of a plan of reorganization of the bank. There was also presented a memorandum prepared in the Board's Division of Examinations with regard to the application which stated that the plan of reorganization provides for the sale of \$500,000 of preferred stock to the Investment and Securities Company, a wholly owned subsidiary of the Old National Corporation which owns 14,889 of a total of 15,000 shares of the stock of the Old National Bank and Union Trust Company; for the elimination from the national bank of undesirable assets and borrowed money; and for the waiver by unsecured depositors of the bank of 60% of the claims in consideration of a right to participate in certain eliminated and trusted assets. The memorandum also stated that the Old National Corporation is unable to pay an assessment on the stock held by it but will pledge all of its assets, including the stock of the national bank and all other banks owned by it, to the Investment and Securities Company to secure, first, a loan to be made by the Reconstruction Finance Corporation and, second, to secure the ultimate payment in full of all claims waived by unsecured depositors and other creditors, retaining, however, whatever equity may remain in such assets after the loan of the



9/9/33

-26-

Reconstruction Finance Corporation and the claims of unsecured depositors and other creditors have been satisfied in full. The memorandum pointed out that the Old National Corporation owns a majority of the stock of seventeen other banks in Washington and Idaho, only four of which have been licensed to reopen, and that the plan of reorganization contemplates the removal of criticized assets from 12 of these banks and their reopening on a 100% basis, following which the affiliated banks in Washington will be taken over by the applicant bank and operated as branches. It also stated that, while the examiner feels that the proposed reduction in capital could be approved as a part of the only feasible plan that can be worked out at this time, in view of the fact that a voting permit will have to be obtained by the Old National Corporation under the provisions of section 5144 of the Revised Statutes, as amended, before the proposed plan of reorganization can be effected and as it would be desirable to develop information as to the future management of the corporation as well as of the applicant bank, it is recommended that approval of the reduction in capital be deferred until such permit has been obtained.

It was stated that, in view of the financial condition and the past history of the management of the Old National Corporation, it is very doubtful whether the Federal Reserve Board would be justified in granting a voting permit to the corporation; that in view of this doubt a question had been raised as to the advisability of deferring action on the application in accordance with the examiner's suggestion; and that, as a result of a consideration of the matter and in an effort to assist in expediting the completion of the reorganization plans, a letter to the Comptroller of the Currency had been prepared for the consideration of the Board,

9/9/33

-27-

advising that the Board approves the proposed reduction in capital, subject to all of the conditions mentioned in the memorandum received from the Comptroller of the Currency and certain additional conditions including the following:

- "Before the vote to reduce the capital is actually taken by the shareholders of the bank:
- (a) The holding company affiliate shall be eliminated by transferring all of the stock to one or more individuals as trustees for the depositors and creditors who are waiving parts of their claims against the bank, subject only to the lien of the Reconstruction Finance Corporation for the proposed loan to be made by the Reconstruction Finance Corporation; or
  - (b) 60% of the stock shall be transferred to one or more individual trustees for the shareholders of the Old National Corporation, subject to the lien of the Reconstruction Finance Corporation and the lien of the waiving depositors and creditors of the bank; or
  - (c) Both the Old National Corporation and the Investment and Securities Company shall obtain voting permits from the Federal Reserve Board pursuant to the provisions of Section 5144 of the Revised Statutes."

It was pointed out that under the first alternative laid down in the above condition no voting permit would be necessary as the holding company affiliate, the Old National Company, would be eliminated, and the reorganization could be completed without the delay which would be necessary in securing a voting permit. Mr. Wyatt stated that, while the second alternative had been proposed as a method of avoiding the necessity of a voting permit being obtained by the Old National Company, and as a means of keeping the present stockholders interested in the bank's affairs from a financial standpoint, he felt that it is equivalent to suggesting a means of evading the law and should not be included in the letter if it is approved.

A general discussion ensued, at the conclusion of which the Governor was requested to discuss the application with the Comptroller of the Currency and submit a recommendation to the Board as to the action to be taken.

Governor Black stated that while he was in Chicago attending the American Bankers Association convention he visited the Federal Reserve Bank of Chicago; that Mr. Stevens, Chairman of the bank, discussed with him the action taken by the board of directors in designating Deputy Governor Preston as Acting Governor and increasing his salary to the rate of \$34,000 per annum; and that he had called Mr. Stevens' attention to the fact that it had been the Board's understanding that Mr. McKay had been Acting Governor of the bank and as Acting Governor had been designated as the bank's representative on the Federal Open Market Committee, and that the Federal Reserve Board had discussed problems with him as Acting Governor in the absence of Governor McDougal. Mr. Stevens had replied, Governor Black stated, that Mr. McKay had not been designated as Acting Governor by the directors and, upon inquiry by Governor Black as to how Mr. McKay felt about the designation of Mr. Preston, Mr. Stevens had replied that he felt Mr. McKay would not evidence any feeling as he was not an aspirant for the position of Governor of the bank. Governor Black stated that Mr. Stevens had also informed him that directors Simpson and Leavell had conferred with Mr. Lynn P. Talley relative to the governorship of the Federal Reserve Bank of Chicago but that the suggestion of Messrs. Simpson and Leavell that Mr. Talley be made governor of the Federal Reserve Bank of Chicago had not met with the approval of the other members of the board of directors and that they would not favor the election of Mr. Talley as governor. In response to an inquiry, Governor Black stated, Mr. Stevens



9/9/33

-29-

had also advised that he interpreted the designation of Mr. Preston as Acting Governor as meaning that he would be elected governor of the bank at the January meeting of the board of directors. Governor Black added that this information was being given to the Board at this time for consideration in connection with the recommendation of the Committee on District No. 7 with regard to the action taken by the board of directors of the bank in designating Mr. Preston as Acting Governor with salary at the rate of \$34,000 per annum.

Governor Black also reported briefly on his attendance at the American Bankers Association convention.

Governor Black then stated that the Banking Committee appointed by the President has done a great deal of work in connection with the collection of information regarding the condition of banks; that, as a result of the inquiry made by him of Federal reserve banks, practically all of the information with regard to member banks in group 3 which will need some outside assistance and in group 4 which are emergency cases has been assembled and that information is being gathered as rapidly as possible with regard to nonmember State banks, the Federal reserve agents having been requested today to submit on or before Monday of next week a definite estimate as to the amount which will be required by State nonmember banks in order to restore their capital. He also stated that the committee will work in close cooperation with the Federal Deposit Insurance Corporation in working out the problems confronting the Corporation in connection with putting the temporary insurance fund in effect on January 1, 1934, and that the committee has had several conferences with State banking authorities in an effort

9/9/33

-30-

54

to be of assistance to them in enabling State banks to qualify as members of the temporary fund.

Mr. Miller reported briefly on his trip to San Francisco and Chicago and his attendance at meetings of the board of directors of the San Francisco bank.

Governor Black stated that Under Secretary of the Treasury Acheson had shown him a letter received under date of September 7, 1933, from the Secretary of Commerce advising that the Special Industrial Recovery Board at its meeting on Wednesday, September 6, voted to establish a committee to consider the question of the inclusion in codes under the National Industrial Recovery Act and in marketing agreements under the Agricultural Adjustment Act of provisions restricting or prohibiting the sale of goods below the cost of production and also of provisions protecting manufacturers' or dealers' margins; that it is felt by the Recovery Board that careful study of the significance and possible effect of such provisions on the recovery program and particularly on the increase of purchasing power should be initiated at once; and that the resolution adopted by the Special Industrial Recovery Board calls for a committee to consist of representatives designated by the Secretaries of the Treasury, Interior, Agriculture, Commerce, and Labor, and by the National Recovery Administrator and the Agricultural Adjustment Administrator. Under Secretary of the Treasury Acheson indicated, Governor Black stated, that he proposed to designate Dr. O. M. W. Sprague as the representative of the Treasury Department on the committee and that he would like to have the permission of the Board to designate Mr. Goldenweiser, Director of the Board's Division of Research and Statistics, as an alternate for Dr. Sprague. Consideration of

9/9/33

-31-

55

Mr. Acheson's suggestion with regard to the designation of Mr. Goldenweiser developed the consensus of the members present that Mr. Goldenweiser is closely occupied by his present duties as Director of the Division of Research and Statistics and that, as the work of the proposed committee will probably involve a great deal of work, Mr. Goldenweiser should not be designated as an alternate member.

Accordingly, the Governor was requested to advise Mr. Acheson that, in the circumstances, the Board would not favor the designation of Mr. Goldenweiser as an alternate member of the Committee, but will be glad to give consideration to any other arrangement that he may desire to suggest.

Reports of Standing Committee dated September 5, 6 and 8, 1933, recommending approval of the following changes in stock at Federal reserve banks:

| <u>Applications for ORIGINAL Stock:</u>                                |  | <u>Shares</u> |            |
|--|--|---------------|------------|
| <u>District No. 5.</u>   |  |               |            |
| Potapsco National Bank in Ellicott City, Md.                           |  | 75            | 75         |
| <u>District No. 7.</u>   |  |               |            |
| First National Bank in Humboldt, Iowa.                                 |  | 36            | 36         |
| <u>District No. 8.</u>   |  |               |            |
| First National Bank in Columbia, Illinois.                             |  | 36            | 36         |
| <u>District No. 11.</u>  |  |               |            |
| First National Bank of Temple, Texas.                                  |  | 132           | 132        |
|  |  | <u>Total</u>  | <u>279</u> |
| <u>Applications for ADDITIONAL Stock:</u>                              |  |               |            |
| <u>District No. 1.</u>   |  |               |            |
| Union Trust Company, Ellsworth, Maine.                                 |  |               |            |
| (Increase in capital)  |  | 60            |            |
| Danvers National Bank, Danvers, Mass.                                  |  |               |            |
| (Increase in surplus)  |  | 18            |            |
| Peoples National Bank, Southbridge, Mass.                              |  |               |            |
| (Increase in surplus)  |  | <u>1</u>      | 79         |
| <u>District No. 5.</u>   |  |               |            |
| First National Bank, Aberdeen, Md.                                     |  |               |            |
| (Increase in capital, preferred, partly offset by decrease in surplus) |  | 15            |            |



| Applications for ADDITIONAL Stock: (Cont'd)  |              | Shares |
|--|--------------|--------|
| District No. 5. (Cont'd)   |              |        |
| Washington County National Bank,<br>Williamsport, Maryland. (Increase<br>in capital, preferred, partly off-<br>set by decrease in surplus) | 30           |        |
| First & Citizens National Bank, Elizabeth<br>City, N. C. (Increase in capital, pre-<br>ferred, partly offset by decrease in<br>surplus)    | 63           |        |
| American National Bank & Trust Company,<br>Danville, Va. (Increase in surplus)   | 1            |        |
| First National Bank, Terra Alta, West Vir-<br>ginia. (Increase in surplus)   | <u>2</u>     | 111    |
| District No. 7.  |              |        |
| Grundy County National Bank, Morris, Ills.<br>(Increase in capital, preferred, part-<br>ly offset by decrease in surplus)                  | 90           | 90     |
|  | Total        | 280    |
| Applications for SURRENDER of Stock:   |              |        |
| District No. 4.  |              |        |
| First National Bank, Clairton, Pa. (Wilson<br>P.O.). (Decrease in surplus)   | 15           | 15     |
| District No. 5.  |              |        |
| First National Bank, Salisbury, N. C.<br>(Decrease in surplus, partly offset<br>by an increase in capital)                                 | 3            |        |
| District National Bank, Washington, D. C.<br>(Being liquidated through conservator)  | 900          |        |
| Federal-American National Bank and Trust Com-<br>pany, Washington, D. C. (Being liqui-<br>dated through conservator)                       | <u>1,800</u> | 2703   |
| District No. 6.  |              |        |
| First National Bank, Claxton, Ga.<br>(Insolvent)   | 42           |        |
| First National Bank, Gadsden, Ala.<br>(Voluntary liquidation, succeeded<br>by First National Bank in Gadsden)                              | <u>180</u>   | 222    |
| District No. 7.  |              |        |
| First National Bank, Hoopeston, Ills.<br>(Insolvent)   | 90           |        |
| First National Bank, Everly, Iowa.<br>(Insolvent)  | <u>39</u>    | 129    |
| District No. 8.  |              |        |
| Peoples National Bank, Seymour, Mo.<br>(Insolvent)   | 20           | 20     |

9/9/33

-33-

57

Applications for SURRENDER of Stock: (Cont'd)

Shares

District No. 12.

Bank of Woodburn, Woodburn, Oreg.  
(Insolvent)

|       |       |
|-------|-------|
| 39    | 39    |
| Total | 3,128 |

Approved.

Thereupon the meeting adjourned.

Wester M. Muiell  
Secretary.

Approved:

E. R. Black

Governor.