

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Thursday, October 5, 1933, at 11:30 a.m.

PRESENT: Mr. Szymczak, Presiding  
Mr. Hamlin  
Mr. Miller

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary

The Committee considered and acted upon the following matters:

Telegrams dated October 4, 1933, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, all advising that, at meetings of the boards of directors on that date, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Reply on September 30, 1933, approved by five members of the Board, to a letter dated September 27 from Mr. Williams, Chairman of the Federal Reserve Bank of Cleveland, stating that the executive committee of the bank, at its meeting on September 22, appointed Mr. A. G. Foster, formerly Assistant Auditor, as Assistant Cashier of the bank to have direct charge of the Reconstruction Finance Corporation Custodies Department, and that, subject to the approval of the Federal Reserve Board, Mr. Foster's salary was fixed at the rate of \$6,000 per annum, effective October 1, 1933. The reply stated that the Board approves the salary fixed for Mr. Foster.

Approved.

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Letter dated October 4, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by four members of the Board, replying to Assistant Federal Reserve Agent Young's letters of September 28 and 30 advising of the temporary appointment of Messrs. Arthur S. Knudson and A. E. Kimlin as examiners in the Federal reserve agent's department of the Federal Reserve Bank of Chicago, with salaries at the rates of \$4,000 and \$3,600 per annum, respectively, effective as of the dates stated in the individual letters. The reply stated that it is assumed that the temporary appointment of Messrs. Knudson and Kimlin as examiners in the Federal reserve agent's department was covered by the authority requested in the agent's telegram of September 21, approval of which was given in the Board's wire of that date, and that, with that understanding, the Board approves the temporary appointment of Messrs. Knudson and Kimlin as examiners in the Federal reserve agent's department of the bank with salaries at the rates stated.

Approved.

Telegraphic reply on October 3, 1933, approved by four members of the Board, to a letter dated September 29 from Mr. Wood, Federal Reserve Agent at St. Louis, requesting approval of the appointment of Mr. Leger Grindon as an examiner in the Federal reserve agent's department of the Federal Reserve Bank of St. Louis, 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, on the condition that Mr. Grindon will promptly liquidate his indebtedness in the amount of \$1,200 to the Mississippi Valley Trust Co., St. Louis, Missouri, a

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member institution.

Approved.

Reply on September 30, 1933, approved by five members of the Board, to a letter dated September 22 from Mr. Peyton, Federal Reserve Agent at Minneapolis, stating that he has employed, as of the dates stated in the letter, Messrs. L. H. Bakken and H. R. Horn as assistant examiners, and Mr. I. J. Iverson as utility clerk, with salaries at the rates of \$2,400, \$3,000 and \$900 per annum respectively. The reply stated that the Board approves the appointment of Messrs. Bakken and Horn as assistant examiners in the Federal reserve agent's department of the bank, with salaries at the rates stated, both effective as of September 18, 1933, but that, as the agent was advised in the Board's letters of July 8 and September 18, 1933, the Federal Reserve Act provides that appointments of examiners are subject to the approval of the Board, and proposed appointments to these positions should be submitted to the Board for consideration before becoming effective. The reply stated also, in connection with the appointment of Mr. Iverson as utility clerk in the agent's department, that this position comes within the provisions of the personnel classification plan of the bank and, therefore, does not require the specific approval of the Board.

Approved.

Telegraphic reply on October 4, 1933, approved by four members of the Board, to a letter dated September 30 from Mr. McClure, Federal Reserve Agent at Kansas City, requesting, for the reasons stated in the letter, that the Board approve an increase from \$2,700 to \$3,000 per

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annum in the salary of Mr. L. F. Mills, an examiner in the Federal reserve agent's department of the Federal Reserve Bank of Kansas City, effective October 1, 1933. The reply stated that the Board approves the increase in Mr. Mills' salary as requested.

Approved.

Reply to a letter dated September 23, 1933, from Mr. Peyton, Federal Reserve Agent at Minneapolis, transmitting statements submitted by officers and employees of the Federal Reserve Bank of Minneapolis with regard to outside business affiliations. The reply noted from the statement submitted by Mr. G. Brudvik, field representative, that he owns ten shares of stock in the Renville County Bank of Mohall, North Dakota, and is an inactive vice president and director of that institution, and stated that it appears that this affiliation is within the scope of the Board's letter of April 29, 1933; that it is felt that Mr. Brudvik should terminate his official connection with the institution promptly and dispose of the stock of the bank held by him as soon as it is possible to do so without resulting in undue hardship on his behalf; and that it will be appreciated if the agent will advise the Board of the action taken by Mr. Brudvik in this connection. The reply noted also that certain other employees of the bank receive remuneration for services rendered outside the bank, and stated that it is assumed that the agent has satisfied himself that such services do not interfere in any way with the efficiency of the employees concerned, and do not involve any financial or other relations that might be embarrassing to the Federal reserve bank, but that it will be appreciated if the agent

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will confirm this assumption.

Approved.

Reply to a letter dated September 27, 1933, from Mr. Newton, Federal Reserve Agent at San Francisco, written in response to the Board's letter of August 29 with regard to outside business affiliations of officers and employees of the Federal Reserve Bank of San Francisco. The reply noted that, with the exception of the Federal reserve agent, none of the officers or employees in the agent's department of the bank is connected in any way with outside business interests, and stated that careful consideration has been given by the Board to the information contained in the agent's letter with regard to his service as a director of the Union Oil Company of California; that the Board feels, however, that the affiliation is clearly within the scope of its letter of April 29; and that the agent should give careful consideration to the advisability of terminating the connection as soon as possible, advising the Board of the decision reached by him in the matter. The reply stated also that, as stated in its letter of August 29, 1933, the Board's letter of April 29 requested that the Board be advised with regard to outside business connections of all officers and employees occupying responsible positions in the various departments of the bank; that the agent's letter makes no mention with regard to the business affiliations of officers and employees in departments of the bank other than the Federal reserve agent's department; and that it is assumed that this information will be submitted as soon as available.

Approved.

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Letters dated September 30, 1933, to the boards of directors of "The Southington Bank and Trust Company", Southington, Connecticut, and the "Commercial State Bank", Afton, Iowa, approved by five members of the Board, stating that, subject to the conditions prescribed in the individual letters, the Board approves the banks' applications for membership in the Federal Reserve System and for the number of shares of stock of the Federal Reserve Banks of Boston and Chicago, respectively, to which each of the banks will be entitled upon the basis of its capital and surplus as of the date upon which its membership becomes effective.

Approved.

Letter dated October 2, 1933, to the board of directors of the "Citizens Bank", Marshall, North Carolina, 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 Bank of Richmond 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 October 4, 1933, to the board of directors of "The Western Security Bank", Sandusky, 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

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Reserve 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 to the board of directors of "The Bank of Forest", Forest, Mississippi, 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 Atlanta 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 30, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by four members of the Board, stating that the Board has reviewed the information submitted with the application of the West McHenry State Bank, West McHenry, Illinois, for membership in the Federal Reserve System; that, in the circumstances set forth in the letter, the Board feels that it would not be justified in approving the application of the bank at present, and, in accordance with the recommendation contained in Assistant Federal Reserve Agent Young's letter of September 6, 1933, requests that the agent communicate with the bank and suggest the withdrawal of its application from further consideration at this time; and that, in such event, although the application itself and the accompanying papers will remain a part of the Board's files, no adverse action thereon will be taken. The letter also stated that if,

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at a later date, the agent feels that the Board would be justified in considering the matter again, the Board will be glad to do so upon his recommendation accompanied by a new application and a current report of examination.

Approved.

Telegram dated September 30, 1933, to Mr. Wood, Federal Reserve Agent at St. Louis, approved by four members of the Board, referring to the application made on behalf of the Manufacturers Bank and Trust Company, St. Louis, Missouri, for membership in the Federal Reserve System, and stating that it has been found that a question of policy of general application to numerous banks which may hereafter apply for membership in the Federal Reserve System is involved in this case; that careful consideration is being given to the position the Board should take on such question of policy; that any action on the application on behalf of the Manufacturers Bank and Trust Company has, accordingly, been deferred by the Board; and that the agent will be advised as soon as the question of general policy is determined and action is taken on the application.

Approved.

Reply on October 2, 1933, approved by four members of the Board, to a letter dated September 18 from Mr. Hoxton, Federal Reserve Agent at Richmond, transmitting the request of the Planters Bank and Trust Company of Farmville, Virginia, which became a member of the Federal Reserve System on April 21, 1933, for an extension of time of six months from October 21, 1933, within which to comply with the Board's condition of membership numbered seventeen which provides that "Such bank shall within



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"six months from the date of its admission to membership increase its unimpaired capital stock to at least \$75,000." The reply noted that the condition could be met by declaring a stock dividend of \$25,000 but that the president of the bank prefers to increase the capital through sale of stock rather than through declaration of a stock dividend, and stated that, in view of the existing satisfactory ratio of the bank's capital and surplus to deposit liability, the agent's comments regarding the inadvisability of attempting to sell additional stock at this time, and his recommendation in the matter, the Board extends until April 21, 1934, the time within which the Planters Bank and Trust Company may comply with the Board's prescribed condition numbered seventeen, with the understanding, however, that until such time as the provisions of such condition have been fulfilled, the present surplus of \$80,000 shall be decreased for no other purpose than for the payment of a stock dividend in an amount sufficient to increase the capital stock of the bank to \$75,000.

Approved.

Letter dated October 2, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by four members of the Board, replying to Assistant Federal Reserve Agent Young's letter of September 13 transmitting a letter from The Home State Bank, South Milwaukee, Wisconsin, dated September 9, 1933, requesting reconsideration of condition numbered nineteen under which it was admitted to membership, which provides that: "After admission to membership, such bank shall not engage in the business of selling insurance either directly or indirectly through its officers

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"or otherwise, even though it may be authorized to do so under the laws under which it is organized". The reply stated that this condition was prescribed on the basis of the statement contained in the report of examination made by the examiner for the Federal reserve bank as of May 23, 1933, to the effect that, while the bank did not conduct an insurance agency, such an agency was conducted by Cashier Logan, the proceeds of which were reflected in the earnings of the bank; that it now appears, however, that the earnings of the agency, as such, are not reflected in the earnings of the bank, but that regular payments of \$75 per month have been made to the bank for rental and for clerical services rendered; that whether the insurance agency is being run as an individual enterprise for the benefit of the cashier as an individual, as is claimed, and the payments to the bank are actually bona fide payments for rent and clerical services rendered, or whether the insurance agency is being run for the benefit of the bank, is a matter of fact to be determined; and that one of the factors to be taken into consideration is whether, in the event of resignation, the present cashier would retain the business, or whether he would be expected to turn the agency over to another representative of the bank. The reply stated also that the agent is requested to make such further investigation of the matter as will enable him to give the Board a firm recommendation as to whether or not the arrangement in effect at The Home State Bank comes within the prohibitions prescribed for that bank.

Approved.

Telegraphic reply on October 3, 1933, approved by four members

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of the Board, to a telegram dated September 29 from Mr. McClure, Federal Reserve Agent at Kansas City, recommending approval of a request of the Sylvan State Bank, Sylvan Grove, Kansas, for a further extension of time from October 1 to November 15, 1933, in which to comply with the conditions of membership imposed by the Board in its letter of July 17 advising of approval of the bank's application for membership in the Federal Reserve System, the basis for the request being the same as for the original request for an extension of time, that the laws of Kansas do not permit a State bank to participate in the Federal Deposit Insurance Corporation. The reply stated that the Board grants the extension requested.

Approved.

Reply on September 30, 1933, approved by five members of the Board, to a letter dated September 25 from Mr. Peyton, Federal Reserve Agent at Minneapolis, inclosing a copy of a letter dated September 22, 1933, from Mr. W. H. Rahn, President of the Farmers State Bank, Winner, South Dakota, requesting reconsideration of the provision in condition numbered eighteen requiring a reduction of \$5,000 in the carrying value of the banking house prior to admission of the bank to membership in the System. The reply stated that such requirement was prescribed in accordance with the definite recommendation of the reserve bank committee; and that, while the bank will have an investment of \$21,800 in banking house, furniture and fixtures, and other real estate, after giving effect to the prescribed adjustments in connection with the outstanding mortgages and the recent reduction of \$1,000 in other real estate, as

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compared with capital of \$25,000 and surplus of \$5,000, it is noted that the examiner does not classify any part of the carrying values of such assets as doubtful or loss, and that the original recommendation for the reduction of \$5,000 in the carrying value of the banking house was based upon the excessive investment in fixed assets, rather than upon the value of the property. The reply stated also that, in view of the otherwise satisfactory condition of the bank, the recent substantial contributions by the president, and the agent's recommendation, the Board has amended conditions numbered sixteen and eighteen to eliminate the requirement of an immediate charge-off of \$5,000 on the banking house, substituting therefor the requirement that the charge-off shall not be less than \$1,000 a year until the carrying value has been reduced \$5,000.

Approved.

Reply on October 2, 1933, approved by four members of the Board, to a letter dated September 2 from Mr. Case, Federal Reserve Agent at New York, relative to the procedure in connection with applications for membership in the Federal Reserve System. The reply stated that the Board agrees with the agent that it is desirable to avoid as far as possible holding applications in abeyance for considerable periods of time pending discussions regarding possible revisions of plans of reorganization or possible corrections of unsatisfactory conditions by other means; and that it is noted that the agent believes that there would be less room for misunderstanding and possible controversy if, as far as possible, all applications for membership which are received by him be either (1)

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promptly forwarded to the Board, whether his recommendation is favorable or unfavorable, or, (2) definitely and promptly withdrawn by the applying bank if it desires to do so because discussions with the officers of the Federal reserve bank have indicated to the officers and directors of the applying bank that the application will probably not be granted. The reply stated also that, of the two alternatives which the agent suggests, it seems more desirable that the applying bank withdraw its application if the agent's investigation indicates that the condition of the bank is such that the Federal reserve bank committee would not feel justified in recommending that the application be granted, and that, of course, if in any case the applying bank requests that its application be submitted to the Board, the Board will be glad to consider the application upon receipt of full information as to all of 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.

Approved.

Reply on September 30, 1933, approved by five members of the Board, to a letter dated July 21 from Mr. Wood, Federal Reserve Agent at St. Louis, making inquiry regarding the manner in which real estate loans, where such loans would not conform to section 24 of the Federal Reserve Act were the loaning bank a national banking association, should be handled in the case of banks applying for membership in the System, and also whether the Board feels that holdings of "other real estate" should be eliminated before an applicant bank is admitted to membership. The reply stated that the question raised in the agent's letter with

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respect to "other real estate" was discussed at the recent conference of Federal reserve agents and the results of the discussion as to the general policy in connection with applications for membership were incorporated in the Board's letter of September 11, 1933 (X-7581). The reply stated also that, while it would be desirable to have real estate loans in State banks admitted to membership in the System conform to section 24 of the Federal Reserve Act, which is applicable to national banks and which provides that loans made by a national bank on real estate security shall not exceed 50% of the actual value of the real estate offered as security, the Board does not feel that loans made by State banks which do not so conform should be classed as unacceptable merely because of that fact if such loans are otherwise good and collectible and are not held in violation of the laws of the State in which the bank is located.

Approved.

Reply to a letter dated August 8, 1933, from Mr. W. O. Osburn, Cashier of the State Exchange Bank, Culver, Indiana, with further regard to membership of that institution in the Federal Reserve System and the retention of the branch now operated by it at Argos, Indiana. The reply noted that the branch in question was established and operated prior to February 25, 1927, but that it was not operated under a charter from the State until 1931, when the legislature of Indiana expressly authorized the establishment of branch banks within the State; that no security is kept at the branch at Argos; that no loans are made by it; and that the extent of its business is to receive deposits and make change. The

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letter stated that the Board understands that under Indiana Acts of 1921, which were in force on February 25, 1927, State banks in Indiana were prohibited from having branches except in cases where charters for such branches had been granted before 1921, and that, accordingly, the branch operated at Argos by the State Exchange Bank prior to February 25, 1927, was not operated "in conformity with State law" unless it was chartered before 1921, and it is understood from Mr. Osburn's letter that such branch was not chartered until 1931. The reply further stated that the Board is of the opinion that the office at Argos must be considered a "branch" within the meaning of section 9 of the Federal Reserve Act and that, in the circumstances, the State Exchange Bank would be eligible for membership in the Federal Reserve System while retaining the branch office now operated by it at Argos only if it should comply with the terms and conditions applicable to the establishment of out of town branches by national banks, which terms and conditions were set forth in the Board's letter of July 31, 1933, which was addressed to Honorable George R. Durgan, and which the Board understands has been referred to Mr. Osburn.

Approved, together with a letter to Honorable George R. Durgan, Lafayette, Indiana, replying to his letters of August 15 and September 15, 1933, and stating that after careful consideration of the question of the eligibility of the State Exchange Bank for membership, it is the view of the Board that the bank may become a member of the Federal Reserve System while retaining its branch office at Argos only if it complies with the requirements applicable to the establishment of branches by national banks.

Reply on September 30, 1933, approved by five members of the

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Board, to a letter dated September 19 from Mr. Hoxton, Federal Reserve Agent at Richmond, advising that The Flat Top National Bank, Bluefield, West Virginia, has been continuously deficient in its required reserves for six months. The reply stated that it is noted that, in the agent's opinion, the bank's continuous reserve deficiencies have been due to its inability to maintain its reserves rather than to any wilful disregard of the requirements of the law, and that representatives of the Federal reserve bank are endeavoring to assist in the rehabilitation of the institution; that, in view of these circumstances, and in accordance with the agent's recommendation, the Board will take no action in the matter of the bank's continuous reserve deficiencies at this time, other than to forward copies of the agent's letter to the Comptroller of the Currency for the information of his office, but that, it will be appreciated if the agent will advise the Board, within a reasonable time, as to whether the bank has restored and is maintaining its required reserves.

Approved.

Letter dated October 3, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by three members of the Board, replying to his memorandum of September 29 recommending approval of a reduction in capital of The First National Bank of Ritzville, Ritzville, Washington, from \$100,000 to \$50,000, in accordance with a plan of reorganization which provides for the sale of the eliminated assets for \$74,131.74 to the Investment and Securities Company; the released capital in the amount of \$50,000, together with undivided profits of \$7,936.12, and funds in the amount of \$74,131.74 made available by the sale of unaccept-



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able assets to the Investment and Securities Company, to be used to eliminate unacceptable assets and depreciation of \$132,067.86. The reply stated that the Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply.

Approved.

Letter dated October 4, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by three members of the Board, replying to his memorandum of September 9 recommending approval of a reduction in the capital of The Commercial National Bank, Kansas City, Kansas, from \$750,000 to \$300,000 in accordance with a plan of rehabilitation which provides for a reduction in the par value of the present common capital from \$100 to \$40 a share; and the sale of \$350,000 class A preferred stock to the Reconstruction Finance Corporation and \$100,000 class B preferred stock locally, at a par value of \$100 a share; the released capital in the amount of \$450,000, together with funds in the amount of \$100,000 from the bank's surplus account and approximately \$39,300 from undivided profits, to be applied toward the elimination of unacceptable assets aggregating approximately \$589,300. 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 stated also that, although the introduction of the new capital funds will make possible the elimination of a material amount of criticized assets, and is therefore a desirable step, the Board feels that the plan submitted is inadequate, and that, if the institution is to prosper, further substantial eliminations and corrections will be necessary; that there will remain

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in the assets of the bank after the proposed adjustments are effected a large amount of past due paper and other slow and doubtful assets, including an excessive proportion of loans predicated on real estate, a heavy investment in banking premises and other objectionable features; and that it is assumed that the Comptroller's office is fully aware of the bank's condition and that its need for further strengthening is receiving consideration.

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, replying to his memorandum of September 6, 1933, recommending approval of a reduction in capital of the Citizens-Farmers National Bank, Chickasha, Oklahoma, from \$200,000 to \$150,000, under a plan which provides also for a contribution of \$50,000 from the present shareholders; the released capital in the amount of \$50,000, together with the contribution of \$50,000 received from the shareholders and approximately \$8,100 of the present surplus and undivided profits, to be used to eliminate substandard assets aggregating approximately \$108,100, such eliminated assets to remain the property of the bank. The reply stated that the Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply.

Approved.

Letter dated September 30, 1933, to the "American National Bank at Indianapolis", Indianapolis, Indiana, 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

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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 Indiana, 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 reply stated also that it appears that the trust department of the Fletcher American National Bank of Indianapolis is carrying several trusts which are unprofitable and that the applicant bank contemplates acquiring some of the more desirable business of that department, and that the Board feels that if the bank is tendered any of the trusts now held by the Fletcher American National Bank of Indianapolis, it should carefully scrutinize the condition of these trusts, which, through their assumption, may prove unprofitable or be detrimental to the interests of the applicant institution. The reply stated further that it is noted that the trust committee of the Fletcher American National Bank of Indianapolis consisted of three members, two of whom were trust officers, and that such committee was not required to report to the board of directors or to any committee appointed by it; and that the Board feels that it would be desirable to appoint a trust committee from the board of directors, the majority of whose members are not connected in any official capacity with the trust department and that such committee should be required to make a periodic report to the board of directors or to a committee appointed by it.

Approved.

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Letter dated September 30, 1933, to "The First National Bank of Baker", Baker, Oregon, approved by five members of the Board, stating that the Board approves the bank's application 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 Oregon, 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.

Reply on October 3, 1933, approved by four members of the Board, to a letter dated September 21 from Mr. Thomas C. Lynch, President of the "Carthage National Exchange Bank", Carthage, New York, requesting advice as to whether it would be possible for the Board to grant permission to the Carthage National Exchange Bank to act as trustee and executor pursuant to the provisions of a will naming the national bank in such capacities, under the permission granted to the national bank by the Board in its letter of March 1, 1932, authorizing it to act as trustee and executor and in certain other fiduciary capacities "only in the specific trusts in which the Carthage National Bank and the National Exchange Bank and Trust Company of Carthage had been appointed and were acting on December 30, 1931." The reply stated that, in the circumstances

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set forth in the reply, the Board does not feel that it would be justified in granting further authority to the Carthage National Exchange Bank to act in a fiduciary capacity until a correction has been effected in the unsatisfactory features of the condition of the bank which constituted the basis of the Board's deferment of the bank's application for full trust powers.

Approved.

Reply on October 2, 1933, approved by four members of the Board, to letters dated September 2, 6, and 18 from Mr. Peyton, Federal Reserve Agent at Minneapolis, relative to the examination of the Federal Reserve Bank of Minneapolis made by the Board's examiners as of March 26, 1933. The reply noted the agent's comments and suggestion that the Federal reserve bank and its branch be permitted to hold securities in safekeeping for the account of nonmember banks which have applications for membership in the System on file with the agent's office or which are in the process of merger with and under the charter of a member institution, until such time as the application for membership has been acted on adversely by the Board or plans for merging with a member institution have been abandoned, and stated that, as a practical matter, the Board will interpose no objection to the retention of the securities at present held for such nonmember banks provided the securities so held will be withdrawn immediately if the bank's application for membership is not approved or if the plans for merger with and under the charter of a member institution are abandoned, but that the Board's action should in no wise be construed as sanctioning the acceptance of

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other securities for safekeeping by the Federal reserve bank from non-member institutions which have applications for membership on file with the agent's office, or which contemplate merger with a member bank. The reply also noted that securities held in safekeeping for other non-member banks have been, or are in the process of being withdrawn, that the First National Bank & Trust Company of Helena, Montana, has withdrawn its securities from the vaults of the Helena branch, and that the Union Bank & Trust Company of Helena has made alterations in its vaults to provide the necessary facilities, and that its securities will be withdrawn from the Helena branch by the end of September; and stated that it will be appreciated if the agent will advise the Board when the withdrawal of these securities and the securities of the nonmember banks referred to has been accomplished.

Approved.

Telegram to the Federal reserve agents at all Federal reserve banks stating that as Thursday, October 12, 1933, is a holiday in seven Federal reserve bank cities, the Board's weekly press statements on the condition of Federal reserve banks and weekly reporting member banks in central reserve cities, as of October 11, will be issued Friday, October 13.

Approved.

Telegram dated October 2, 1933, to Mr. Newton, Federal Reserve Agent at Atlanta, approved by four members of the Board, stating that the Board approves the application of Harry G. Thompson, Special Agent for the State Banking Department of Louisiana, and John F. Finke,

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Liquidator, for the cancelation of 4,995 shares of stock of the Federal Reserve Bank of Atlanta outstanding in the name of the Canal Bank and Trust Company, New Orleans, Louisiana.

Approved.

Reply on September 30, 1933, prepared in accordance with the action taken by the Board at its meeting on September 28 and approved by four members of the Board, to a letter dated September 15 from Mr. Walsh, Federal Reserve Agent at Dallas, inclosing a statement of the Advisory Committee of the Federal Reserve Employees Savings and Investment Association, composed of Mr. Walsh, Governor McKinney and Mr. Stroud, Counsel for the Federal reserve bank, with respect to the policies and operations of such association. The reply stated that the Board has given careful consideration to the comments contained in the agent's letter and its inclosures, but does not see its way clear to recede from the position taken in its letter to the agent of August 25, 1933, that the association should confine its loan activities strictly to the members of the bank's staff. The reply stated also that the matter was discussed informally with Mr. J. H. Frost when he was in Washington the early part of last week to attend the meeting of the Federal Advisory Council and it was pointed out to him that it might be well for counsel for the Federal reserve bank to consider whether or not under the laws of Texas such an association may engage in the business of receiving deposits and of making loans generally without authority from the State supervisory authorities and without supervision and examination by them; that, since this question would involve the construction

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of State statutes, the Board would be glad to have the benefit of an opinion of counsel for the Federal reserve bank in this connection; and that the Board will offer no objection to the continued operation of the association if its loans are hereafter made only to officers and employees of the Federal reserve bank and its branches, with the understanding, of course, that its operations are legal in every respect.

Approved.

Letter to the Federal reserve agents at all Federal reserve banks stating that the Board has recently reviewed its procedure relating to the granting of permission to member banks in outlying districts of central reserve and reserve cities to carry reduced reserves, as authorized by section 19 of the Federal Reserve Act, and has decided not to require (as provided in its letter X-3977 of February 26, 1924) that it shall be a condition precedent to the filing of an application by a member bank for reduction in its reserve requirements that the applicant shall have been a member of the Federal Reserve System and in operation as such for a period of at least one year prior to the date of such application; that, as a matter of general policy, the Board is disposed to grant permission to any member bank located in an outlying district of a central reserve or reserve city, as defined in Regulation D, to carry reduced reserves, provided the character of its business is typical of banks located in and serving primarily outlying communities in such cities; and that, in submitting the application of a member bank for permission to carry reduced reserves, however, a full statement should be furnished of the facts upon which the board or executive committee of



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the Federal reserve bank bases its recommendation, with particular reference to the location of the bank and to the character of business conducted by it and by other banks located in the same general neighborhood. The letter stated also that, in the review of the situation as of the end of each year, in accordance with the Board's letter X-4739 of December 4, 1926, it is requested that, in addition to such other data and comments as the agent may deem it desirable to submit, there be furnished the following information for each bank in lieu of that specified in the letter referred to:

1. Net demand deposits\*
  2. Time deposits\*
  3. Bank deposits (items 2 and 3 of Schedule J, item 4 in Schedule K and item 2 in Schedule L, of call report)\*
  4. Total deposits\*
  5. Vault cash\*
  6. Amount of debits to individual deposit accounts for the four-week period ending on the last Wednesday in December for each bank that reports debit figures to the Federal reserve bank.
  7. Whether there has been any change, since the previous annual review, in the general character of the bank's business.
  8. Distance of the bank from what is generally regarded as the downtown business and financial district of the city.
- \* As of the last call date in the year.

The letter stated further that it is also requested that in the annual review consideration be given to the question whether there has been such a change in the district in which any bank having permission to carry reduced reserves is located that it might no longer be regarded as an outlying district, and that appropriate comment thereon be included in the agent's letter to the Board.

Approved.

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Telegraphic reply on October 2, 1933, approved by four members of the Board, to a telegram dated September 27 from Mr. Case, Federal Reserve Agent at New York, referring to the Board's letter of September 21, 1933 (X-7598-a), with regard to the liability of banks on deferred certificates issued to depositors, and requesting permission to furnish copies of such letter in replying to inquiries involving similar circumstances. The reply stated that the Board has no objection to the agent following this procedure, provided that in each such case the name of the State, the State officer and the bank involved in the Board's letter be eliminated from any copy which is made of such letter.

Approved.

Telegram dated October 2, 1933, to Mr. O'Hara, Manager of the Buffalo branch of the Federal Reserve Bank of New York, approved by four members of the Board, requesting that he advise Mr. W. W. Schneckenburger, Executive Vice President of the Marine Midland Group, Inc., Buffalo, New York, as follows: "Referring your letter September 28 requesting extension of period within which each member bank which is subsidiary of Marine Midland Corporation may file reports of its affiliates as of June 30, 1933, Comptroller of Currency and Board extend time within which each such national bank and each such State member bank, respectively, may transmit such reports until October 10, 1933".

Approved.

Reply on October 2, 1933, approved by four members of the Board, to a letter dated July 11 from Mr. Paddock, Deputy Governor of the Federal Reserve Bank of Boston, stating that a member bank proposes to

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sell to one of its customers, a Massachusetts cooperative bank, certain Government bonds under a contract whereby the member bank would agree to repurchase the bonds at the price paid for them by its customer, and that, under the terms of the agreement, the customer would receive, in addition to a sum equal to the original purchase price, interest on such moneys at the rate of 1 1/2% per annum for the period during which the customer retained title to the bonds; and requesting advice as to whether any such arrangement would come within the prohibition of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, which forbids the payment of interest, directly or indirectly, on deposits payable on demand. The reply stated that the statement of facts contained in Mr. Paddock's letter is not sufficiently complete to enable the Board to advise definitely whether such a transaction would come within the prohibition of section 19 of the Federal Reserve Act, as amended; that if the member bank should obligate itself to repurchase the bonds on demand, or within thirty days after notice from its customer, or within thirty days from the date of consummation of the original purchase, it would appear that the transaction might amount to an indirect payment of interest on a deposit payable on demand or might be regarded as a device to evade the prohibition against the payment of interest on deposits payable on demand and therefore unlawful; but that if such a transaction represented a bona fide borrowing by a member bank, it would not appear to come within the prohibitions contained in section 19 of the Federal Reserve Act; and that the burden would be upon the member bank to show to the satisfaction of the Board, to the examiners duly authorized

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to examine the bank, or to other duly constituted authorities, that the arrangement was a bona fide transaction and not an attempt or device to evade the prohibitions of the Act.

Approved.

Reply on September 30, 1933, approved by five members of the Board, to a letter dated September 22 from Mr. Gilbert H. Perkins, Vice President of the Chemical Bank and Trust Company, New York, New York, inquiring as to whether, under certain circumstances stated in Mr. Perkins' letter, a loan may be made upon the security of time certificates of deposit, in view of the provisions of section IV of the Board's Regulation Q. The reply stated that it is assumed that the interest charged by the bank on the loan in question will be at the same rate as that charged on other loans of the same general class at the time the loan is made; that, with this understanding and on the basis of the peculiar facts of the case described by Mr. Perkins, it is the view of the Board that a loan made under the circumstances described would not constitute a violation of the provisions of the Board's regulation; but that the Board's position in this case should not be considered a precedent with respect to any other case in which the facts may not be in all respects substantially the same as those stated in Mr. Perkins' letter.

Approved.

Letter to Mr. Logan, Deputy Governor and General Counsel of the Federal Reserve Bank of New York, replying to a letter dated September 6, 1933, from Mr. Herbert H. Kimball, Assistant Counsel for the bank, relating to the right of the Irving Trust Company of New York City to pay

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interest on demand deposits consisting of funds held by it as custodian, receiver, and/or trustee in bankruptcy proceedings under appointment of the United States District Court for the Southern District of New York, and deposited with itself under a rule of the court; inclosing a copy of an opinion of Mr. Alfred A. Cook, counsel for the Irving Trust Company in which the view is expressed that interest may be paid on such deposits which were made prior to June 16, 1933, until the moneys shall have been duly expended or disbursed; and stating that it is understood that Mr. Logan agrees with this conclusion. The reply stated also that, under the rule of court quoted in the reply, it appears to be contemplated that the Irving Trust Company shall retain on deposit moneys deposited with itself pursuant to such rule and pay interest thereon until the moneys have been duly expended or distributed by the trust company as custodian, receiver, or trustee in the administration or settlement of the estate in whose account the funds are deposited; and that, after careful consideration of the matter and, in view of the peculiar circumstances of the case, the Board's Counsel advises that he sees no reason to differ from the conclusion expressed by Mr. Cook in his opinion, with which Mr. Logan concurs, that interest may be paid on deposits made by the Irving Trust Company with itself prior to June 16, 1933, pursuant to the rule of the court, until such deposits have been duly expended or distributed in the administration or settlement of the estate in whose account the funds are deposited.

Approved.

Reply on September 30, 1933, approved by five members of the

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Board, to letters addressed under dates of September 7 and 26 to the Comptroller of the Currency and the Board, respectively, by Mr. C. E. Terwilliger, President of The Wallkill National Bank, Wallkill, New York, stating that on June 1, 1933, the bank gave its depositors notice that interest at the rate of 3 1/2% would be paid on savings accounts for the period commencing July 1, 1933, and ending December 31, 1933, and inquiring whether, in view of the provisions of the Board's Regulation Q, the bank may pay interest on such accounts accruing after October 31, 1933, at the rate stated in the notice given to its depositors. The reply referred to the provision of the Board's Regulation Q as to the rate of interest which may be paid on savings deposits with respect to which a contract was entered into in good faith prior to June 16, 1933, and stated that it would appear from the facts submitted that the bank is legally entitled to terminate or modify its contract with depositors at its option and without liability, and that it is the view of the Board that the bank may not lawfully pay interest on savings deposits accruing after October 31, 1933, at a rate in excess of the maximum prescribed in Regulation Q, viz., 3% per annum compounded semi-annually.

Approved.

Reply to a letter dated October 2, 1933, from Mr. Charles E. Terwilliger, President of The Wallkill National Bank, Wallkill, New York, stating that his attorney has advised that the bank has entered into a contract with its depositors under which the bank is obligated to pay interest at the rate of 3 1/2% on special interest department

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accounts for the period from July 1, 1933, to December 31, 1933. The reply stated that Mr. Terwilliger presents no additional facts with regard to the matter, however, and that the Board is unable to add anything to the statement in its letter of September 30 on this subject, that "On the basis of the information at hand \* \* \* it is the view of the Board that your bank may not lawfully pay interest on savings deposits accruing after October 31, 1933, at a rate in excess of the maximum prescribed in Regulation Q, viz., 3 per cent per annum compounded semi-annually".

Approved.

Reports of Standing Committee dated October 2, 3, and 4, 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. 1.</u>   |               |           |
| Groveton National Bank, Groveton, N. H.  | 42            |           |
| First National Bank of Reading, Reading, Mass.   | <u>72</u>     | 114       |
| <u>District No. 4.</u>   |               |           |
| First National Bank at Canonsburg, Pa.   | 150           |           |
| Van Wert National Bank, Van Wert, Ohio   | <u>66</u>     | 216       |
| <u>District No. 5.</u>   |               |           |
| First National Bank of Chestertown, Md.  | 42            | 42        |
| <u>District No. 11.</u>  |               |           |
| Farmers National Bank of Belton, Texas   | <u>36</u>     | <u>36</u> |
|  | Total         | 408       |
| <br><u>Applications for ADDITIONAL Stock:</u>  |               |           |
| <u>District No. 1.</u>   |               |           |
| Somerville National Bank, Somerville, Mass.<br>(Increase in capital, preferred, partly<br>offset by decrease in surplus) | 225           |           |

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| <u>Applications for ADDITIONAL Stock: (Continued)</u>  |  | <u>Shares</u> |            |
|--|--|---------------|------------|
| <u>District No. 1. (Continued).</u>  |  |               |            |
| Waltham National Bank, Waltham, Mass.<br>(Increase in capital, preferred, partly<br>offset by decrease in surplus) |  | 30            |            |
| Merchants National Bank, Manchester, N.H.<br>(Increase in capital)   |  | 30            |            |
| Central National Bank, Rutland, Vt.<br>(Increase in capital, preferred, partly<br>offset by decrease in surplus)   |  | 21            |            |
| Windsor County National Bank of Windsor, Vt.<br>(Increase in capital and surplus)                                  |  | 36            | 342        |
| <u>District No. 4.</u>   |  |               |            |
| Peoples City Bank, McKeesport, Pa.<br>(Increase in surplus)  |  | 6             | 6          |
| <u>District No. 10.</u>  |  |               |            |
| Colorado National Bank, Denver, Colo.<br>(Increase in capital, preferred, partly<br>offset by decrease in surplus) |  | 300           | 300        |
|  |  | <u>Total</u>  | <u>648</u> |
| <u>Applications for SURRENDER of Stock:</u>  |  |               |            |
| <u>District No. 3.</u>   |  |               |            |
| Monroe County National Bank of East Stroudsburg, Pa.<br>(Decrease in surplus)                                      |  | 39            | 39         |
| <u>District No. 4.</u>   |  |               |            |
| First National Bank, Mt. Vernon, Ohio<br>(Decrease in surplus)   |  | 6             |            |
| First National Bank, Elmore, Ohio<br>(Insolvent)   |  | 38            |            |
| First National Bank, Bruin, Pa.<br>(Insolvent)   |  | 21            | 65         |
| <u>District No. 6.</u>   |  |               |            |
| First National Bank, Oberlin, La.<br>(Insolvent)   |  | 15            |            |
| Tri-County National Bank, Oliver Springs, Tenn.<br>(Insolvent)   |  | 21            | 36         |
| <u>District No. 7.</u>   |  |               |            |
| Grand Rapids Savings Bank, Grand Rapids, Mich.<br>(Insolvent)  |  | 1,200         |            |
| First National Bank, Coal City, Ill.<br>(Decrease in surplus, partly offset<br>by increase in capital)             |  | 30            |            |
| Oswego State Bank, Oswego, Ill.<br>(Insolvent)   |  | 21            | 1,251      |



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| <u>Applications for SURRENDER of Stock: (Continued)</u>  | <u>Shares</u> |              |
|--|---------------|--------------|
| <u>District No. 8.</u>   |               |              |
| Citizens National Bank, Monticello, Ky.<br>(Insolvent)   | 30            |              |
| First National Bank, Ripley, Tenn.<br>(Insolvent)  | <u>21</u>     | 51           |
| <u>District No. 11.</u>  |               |              |
| First National Bank, Gainesville, Texas.<br>(Voluntary liquidation, succeeded by<br>Gainesville National Bank) | 180           | 180          |
|  | <u>Total</u>  | <u>1,622</u> |

Approved.

Thereupon the meeting adjourned.

Rester Morrell  
Secretary.

Approved:

M. S. Symgat.  
Chairman, Executive Committee.