A meeting of the Federal Reserve Board was held in Washington on Monday, October 9, 1933, at 3:30 p. m.

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

Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Vest, Assistant Counsel

Governor Black stated that he had given consideration to the appointment of committees of members of the Board for the various Federal reserve districts and that he desired to suggest the following appointments:

<u>District No. 1:</u>
Mr. Hamlin, Chairman
Mr. James

<u>District No. 2:</u>
Mr. Miller, Chairman
Mr. Hamlin

<u>District No. 3:</u>
Mr. Hamlin, Chairman
Mr. Thomas

<u>District No. 4:</u>
Mr. Szymczak, Chairman
Mr. Miller

<u>District No. 5:</u>
Mr. Hamlin, Chairman
Mr. Szymczak

<u>District No. 6:</u>
Mr. James, Chairman
Mr. Hamlin

<u>District No. 7:</u>
Mr. Szymczak, Chairman
Mr. Miller

<u>District No. 8:</u>
Mr. James, Chairman
Mr. Szymczak

<u>District No. 9:</u>
Mr. Thomas, Chairman
Mr. Miller

<u>District No. 10:</u>
Mr. Thomas, Chairman
Mr. James

<u>District No. 11:</u>
Mr. James, Chairman
Mr. Thomas

<u>District No. 12:</u>
Mr. Miller, Chairman
Mr. Szymczak

Governor Black stated that he would like to receive any suggestions from the other members of the Board as to changes in the proposed appointments by Thursday of this week.

Governor Black then stated that Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta had called him on the telephone and advised that a representative of the Banco de Ponce, Ponce, Puerto Rico, organized under the laws of Puerto Rico, had called upon him in accordance with a suggestion received by the Banco de Ponce in a letter from the Federal Reserve Board under date of September 18, 1933, with regard to membership of that institution in the Federal Reserve System; that, in Mr. Newton's opinion, the bank needs some adjustment before it should be permitted to become a member; that the representative had advised Mr. Newton that the bank proposes to issue preferred stock which would be purchased by the Reconstruction Finance Corporation; and that, if the Board was of the opinion that the application should be received, Mr. Newton feels it would be desirable to send some one to Puerto Rico to look into the economic situation and the financial condition of the bank to see whether it would be desirable to admit a bank in Puerto Rico to membership. Governor Black then referred to section 19 of the Federal Reserve Act which provides that national banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may, with the consent of the Federal Reserve Board, become member banks of any one of the Federal reserve districts, and he raised the question as to whether the

Banco de Ponce should submit an application for membership to the Federal Reserve Bank of Atlanta or to some other Federal reserve bank. The discussion developed the consensus of the members present that, in view of the fact that the normal business relationships of Puerto Rico are with New York, it would be advisable for the bank to take up the question of membership with the Federal Reserve Bank of New York, and it was understood that Governor Black would request Mr. Newton to advise the representative of the Banco de Ponce that, if the institution desires to become a member bank, it should conduct its negotiations regarding membership with the Federal Reserve Bank of New York. The question was also raised as to whether the Banco de Ponce may desire membership in the Federal Reserve System in order to obtain the benefits of the insurance of its deposits by the Federal Deposit Insurance Corporation, and it was understood that Governor Black would request Mr. Newton to advise the representative also that, if the bank's desire for membership is actuated by the thought that it would obtain the insurance of its deposits by the Federal Deposit Insurance Corporation, it should take up with the Corporation the question whether its deposits would be eligible for insurance under the provisions of section 12B of the Federal Reserve Act.

Governor Black advised the other members of the Board that he had requested Mr. Goldenweiser, Director of the Division of Research and Statistics, and Mr. Wyatt, General Counsel, to prepare opinions on the question of the devaluation of the dollar; that these opinions are now ready; and that he would furnish copies to members of the Board for such suggestions as they may care to make after which the matter can be discussed by the Board.

Governor Black then stated that since his return this morning from a short vacation he ascertained that the plan to recapitalize non-member banks proposed by the Banking Committee appointed by the President is being held in abeyance and that it has not yet been determined what final action will be taken in that connection. He stated that he had participated in a conference with Mr. Henry Bruere, who is assisting the President of the United States in correlating the activities of the various credit agencies of the Government, Mr. Woodin, Secretary of the Treasury, Mr. Robert, Assistant Secretary of the Treasury, Mr. J. A. Broderick, Superintendent of Banks of the State of New York, and Mr. Mortimer N. Buckner of New York, in connection with the proposal to organize a new emergency corporation which will sell preferred stock to the Reconstruction Finance Corporation and with the proceeds liquidate the assets of banks closed since the first of January, 1933, and that under the plan the corporation would make available up to 50% of the deposits of each closed bank depending upon the value of its assets. Governor Black added that Mr. Bruere had requested that two members of the staff of the Federal Reserve Board be assigned to him for the next few days in connection with a study of this problem and that he had requested Mr. Martin, Assistant to the Governor, and Mr. Morrill, Secretary of the Board, to cooperate in the matter.

At this point, Mr. Harrison, Governor of the Federal Reserve Bank of New York, joined the meeting.

Governor Black presented for consideration the following letter dated September 29, 1933, from Governor Harrison, copies of which previously had been furnished to the members of the Board:

"During the years 1918 and 1919 this bank began to assemble the property on which its building now stands. All the land comprised within the city block bounded by Nassau Street, Liberty Street, Maiden Lane and William Street, consisting of 45,750 square feet, was acquired with the exception of a small plot of about 2700 square feet at the extreme easterly end of the block, as indicated by the letter "K" on the enclosed diagram, on which is located an obsolete eight story and basement office building known as the Montauk Building.

"It was the desire and intention of the directors of this bank at the time of making the original assembly to purchase the Montauk property. We then had the verbal agreement of the agent for the owners to sell the property to us for $400,000, provided a better offer was not received before we obtained the approval of the Federal Reserve Board to make the purchase. Pending receipt of such approval, the property was sold to a real estate speculator for $425,000. Thereafter, Governor Strong personally took charge of the negotiations for the acquisition of the property but nothing was accomplished inasmuch as the new owner had ideas of value which to us seemed exorbitant. At one time it was suggested that we might have the property for $1,250,000. As we now remember it, a number of reputable business men in the downtown district of New York urged the owner to sell the property to us at a reasonable figure so that our building project, covering the entire block, could be completed, and so that there would not be an "eye-sore" adjacent to our property.

"At the present time the Montauk Building is owned by the Ormond Realty Company which, we are advised, is controlled by the Bank of the Manhattan Company, as pledgee of all the stock of the Ormond Company. We are advised that there is a first mortgage on the property of $325,000, due June 30, 1934, with interest written at 6% but now reduced to 4% to October 1, 1933, which is held by the Julliard Foundation; that taxes on the property have not been paid for the year 1933, which together with accrued interest on the mortgage and the principal thereof aggregate liens against the property of approximately $350,000, and that all leases of space in the Montauk Building expire on or about May 1, 1934, with the exception of the lease of rooms 714 and 715 which expires on May 1, 1935, and the lease of the basement which expires in the year 1939 but under which the tenant is in default, by reason of which we believe such lease could be terminated.

"During recent years this property has been offered to us from time to time at prices ranging from $750,000 to $410,000. We were recently advised by our real estate agent, Horace S. Ely & Company, "that the property could probably be purchased for $375,000, the assessed valuation of the land. The building we are advised is assessed at $75,000, making a total assessed valuation of $450,000.

"At a meeting of our directors held on Thursday, September 21, 1933, it was the consensus of opinion that an offer of sale in the neighborhood of $375,000 would merit consideration, and accordingly it was voted that the officers negotiate for the purchase of the property, with the understanding however, that the proposed purchase would be submitted to your Board for approval before consummation. Pursuant to such authorization, negotiations were conducted and we now have a definite offer of sale at $356,250 (with adjustments for taxes, interest, insurance, current operating expenses and rentals), which is little more than the present amount of the liens and encumbrances affecting the property. It is the opinion of our Board of Directors that such price is fair and that such offer affords us a favorable opportunity to acquire this property. In view of the general state of the real estate market, we feel that it is important to accept the offer without delay, for with the return of better conditions, we shall undoubtedly never again be able to acquire the property at the price offered.

"There are many considerations that prompt us to make this acquisition, and to do so at this time. Besides improving the general appearance of our premises and eliminating the possibility of others capitalizing on a location adjoining us, there are other and more practical reasons for purchasing the site in question. Our trucking enclosure, the entrance to which is on Maiden Lane, a one-way street, westbound, is now taxed to capacity. The acquisition of the Montauk property would permit us to extend such enclosure by the construction of a through driveway from Maiden Lane to William Street, thus permitting trucks to drive in one way and out of the other. Our various departments at the east end of our present building could advantageously use additional space and the acquisition of this property would meet their requirements and provide needed space for our board room. Moreover, we feel that any building immediately adjacent to our property jeopardizes our police protection, and is a potential source of danger which would be removed if we controlled the entire block and had all our exposures on street fronts. In addition, we think it should not be overlooked that the demolition of the Montauk Building and the extension of our building to William Street at this time, being in line with the national efforts looking toward recovery, would be in the public interest, and at the same time permit us to take advantage of present construction costs.

"You will note that the price at which the property has been offered is equivalent to approximately $132 per square foot, whereas its assessed valuation is $139 per square foot. The average cost per square foot of our present plotage was $103, which made our total cost of land acquisition $4,744,020 against an assessed valuation at this time of $5,850,000, or an average assessed valuation per square foot of $127. However, by referring to the enclosed "diagram you will note that the parcel marked "A" at the corner of Maiden Lane and Nassau Street, containing 580 square feet, cost us \$180,960 or an average cost per square foot of \$312 and that the parcel marked "C" at the corner of Liberty and Nassau Streets containing 2700 square feet (the same area as the Montauk property) cost us \$580,500 or an average cost per square foot of \$215. The Montauk property, represented by letter "K" on the enclosed diagram, you will note, is bounded on three sides by Maiden Lane, and William and Liberty Streets, thus containing two important corners, and it is for this reason that we consider an average price of approximately \$132 per square foot for this property most reasonable.

"We earnestly request that the Board give this proposal its prompt approval, as the offer of sale is limited to a period of two weeks from September 27, 1933, expiring with the close of business on October 10."

In response to a request that he give the Board any additional information he may have in connection with the purchase referred to in the above letter, Governor Harrison stated that immediately after writing the letter he had requested some of the officers of the bank to take up with the architects the question as to what the cost would be at present prices to build on the Montauk property an addition to the present building in accordance with the bank's original plans, it being felt that such addition to the present building would not cost in excess of \$1,000,000. He also stated that, in connection with the action of the board of directors with regard to the proposed purchase, no decision was reached as to whether the bank should proceed immediately with the erection of the addition to the present building; that no immediate necessity exists for the additional construction work; that he personally felt that if the bank could have plans prepared and, without delay, could obtain satisfactory bids for the erection of the addition to the present building it perhaps would be a desirable thing to do, and that the directors of the bank had reached no conclusion as to whether that step should be taken at the present time although they did feel that it is desirable to acquire the property while the opportunity is offered and to determine later what should be done with regard to a building program.

In response to an inquiry as to the possibility of a substantial increase in the activities of the Federal reserve bank in the future, Governor Harrison stated that he had tried to be over-cautious about that phase of the matter, for the reason that the present increased activities of the bank are largely due to the services being rendered by the bank as fiscal agent of the United States, and that, while such activities may increase considerably, they are not apt to be permanent and can be taken care of by utilizing more space on the seventh floor of the main building and transferring the records which are at present stored on that floor to the annex building which is owned by the Federal reserve bank. He also added that the proposed purchase seemed to him to be desirable because, (1) it offered an opportunity to expand the directors' room and other offices in the present building and make a more desirable arrangement in the trucking inclosure, (2) it would offer greater protection to the bank, (3) the present building on the Montauk property is unsightly, and the acquisition of the ground would remove the possibility of someone else acquiring the property and erecting a building which would not be in harmony with the architecture of the bank building, and (4) the erection of an addition to the present building at this time would be a contribution to the movement toward the revival of business.

Governor Harrison then left the meeting, and upon his return stated that he had communicated with the officers of the Federal Reserve Bank of New York, and had been advised that, after a hurried estimate, the architects had reported that an addition to the present building, in accordance with the original building plans of the bank, would cost approximately $860,000. He also stated that in taking action at their meeting on September 21, 1933, the directors had all voted in favor of the proposed purchase, with the exception of Mr. George W. Davison, who did not vote for the reason that the Central Hanover Trust Company of New York, of which he is chairman, now holds the mortgage on the property.

Governor Harrison again withdrew from the meeting, and a discussion of the proposed purchase ensued during which certain of the members present indicated that they did not favor the acquisition of the Montauk property by the Federal Reserve Bank of New York.

The chairman and Mr. O'Connor were invited into the meeting and were advised of the consideration which had been given by the Board to the proposed action of the New York bank.

A further discussion followed, and, upon the suggestion being made that it would be desirable to withhold action on the matter for sixty or ninety days in order to enable further consideration to be given to it, Governor Black pointed out that the bank's option on the property expires tomorrow, October 10. It was then suggested that Governor Harrison be requested to rejoin the meeting, and upon his return he stated, in response to an inquiry, that he thought it would be possible for the bank to obtain an extension of the option. He also stated that he had no strong feeling as to the proposed purchase, and that, if there is any objection on the part of the members of the Board, he would rather drop the matter than to request an extension of the option, although he did not know how the directors of the bank would feel regarding that phase of the matter.

Governor Harrison was informed that some of the members felt that the property should be acquired to give the bank ownership of the entire block on which its present building is located and as a contribution in the movement to aid business recovery, but that others felt that Federal reserve banks should not acquire any additional real estate just at this time.

After some further discussion, Mr. Harrison stated that during discussion of the matter by the directors of the New York bank they had considered whether they should approve the purchase of the property without submitting the matter to the Federal Reserve Board. He also stated that if there is some particular reason why the Board does not want to take action at the present time, he would prefer to drop the matter.

The suggestion was then made that action on the matter be deferred for a meeting of the Board tomorrow morning, following which the chairman and Mr. Miller left the meeting.

Mr. James referred to Governor Harrison's statement that the directors of the New York bank had considered whether to purchase the property without referring the matter to the Board, and he inquired of

Mr. Wyatt whether the Board has the right to require Federal reserve banks to obtain the approval of the Board in connection with purchases of real estate. Mr. Wyatt replied that there is no express provision in the Federal Reserve Act requiring a Federal reserve bank to obtain the permission of the Federal Reserve Board before acquiring land for the bank's head office.

Mr. James then moved that the Board advise all Federal reserve banks that it is not within the province of the Federal Reserve Board to pass upon the purchase of real estate by Federal reserve banks on which to erect bank buildings.

Mr. James' motion was discussed briefly, and, upon being put by the chair, was unanimously carried.

There was then presented a proposed telegraphic reply to a letter dated October 5, 1933, from Mr. Crane, Deputy Governor of the Federal Reserve Bank of New York stating that the Bank for International Settlements has advised that a new formula of partial repayments in connection with the proposed consolidation of the credits to the National Bank of Hungary has been suggested which it is believed will be agreeable to all participants and that the new formula provides for the utilization of the £640,000 of gold held in the name of the Bank for International Settlements in London on behalf of the participants in the first credit to effect partial pro rata repayments to members of the first syndicate credit as follows: £160,000 on October 18, 1933, and £96,000 on April 18, 1934 and each succeeding half-year until April 18, 1936, inclusive. The letter also stated that at the meeting of the board of directors of the New York bank on October 5, 1933 it was voted to authorize the officers to accept partial repayment of the bank's share in the credits to the National Bank of Hungary and to arrange for the renewal for a period not exceeding three years of the balance remaining unpaid on the same terms and conditions as set forth in the resolution adopted by the board of directors of the bank on July 13, 1933, except that the new formula of repayments mentioned above would be followed and that the three year period would now terminate on October 18, 1936. The letter added that the Bank for International Settlements had advised that a decision will be made by its board on October 9 and that they would like to hear from the Federal Reserve Bank of New York on or before that date. The reply stated that the Board offers no objection to the action of the board of directors of the bank, on the understanding that the new formula for partial repayments will be acceptable to all other participants in the credits and that such participants will renew the unpaid balance of their participations for the same period of time as the New York bank renews its participation. The reply also requested that if and when the credits are renewed in accordance with the authority of the directors of the New York bank, the Board be advised as to the exact dollar amount of partial repayments on the credits received by the bank in connection with the renewal of the unpaid balance.

Approved.

At this point Mr. O'Connor and Governor Harrison left the meeting.

There was presented a proposed telegram to Deputy Governor McKay of the Federal Reserve Bank of Chicago, referring to a telephone conversation between Counsel for the Federal reserve bank and Mr.

Szymczak, and to a letter addressed to Mr. Szymczak under date of September 16, 1933, by Mr. Charles B. Dunn of Counsel for the bank, with regard to interest on deposits of funds of Cook County, Illinois. The proposed telegram stated that the Board understands that the State law provides that the county treasurer in counties of more than 150,000 inhabitants shall advertise for bids from banks for interest on county funds deposited with them; that he shall ask for separate bids for interest on deposits remaining for periods of thirty, sixty and ninety days; that awards may be made to the highest and best responsible bidder; that any and all such bids may be rejected; that if all bids are rejected the treasurer shall immediately readvertise and continue to do so until awards have been made; and that apparently there is no specific requirement that banks pay interest on such funds, and it would seem legally possible that awards might be made to banks which have not agreed to pay interest. The telegram also stated that, in the circumstances, after careful consideration, it is the Board's opinion on the information at hand that it cannot be said that the payment of interest on deposits of county funds made by the treasurer of counties of Illinois having more than 150,000 inhabitants is required under State law, within the meaning of section 19 of the Federal Reserve Act, and, accordingly, that a member bank may not lawfully pay interest on such deposits which are payable on demand.

Mr. Wyatt stated that a number of extremely close and difficult questions with regard to whether the payment of interest is required by State law within the meaning of section 19 of the Federal Reserve Act have been presented, and that his office is endeavoring to find a line of demarcation, and that, in his opinion, the only reasonable distinction is that if it is lawful for the State official to deposit the public funds in a bank without receiving interest then the payment of interest is not required, but that if it is not lawful to make such deposits the payment of interest is required. He referred to the action taken at the meeting of the Board on September 12, 1933, at which it was held that member banks could lawfully pay interest on funds of the State of Illinois, and stated that the present case can be distinguished from the previous one on the grounds that it cannot be said that the payment of interest is required on deposits of funds of Cook County, inasmuch as the statute provides that awards may be made to the highest and best responsible bidder, and that, if no responsible banks bid on the funds, they then may be deposited by the county treasurer without interest in banks which are responsible.

Mr. Szymczak stated that he felt that the practical situation with regard to the deposits of the funds of Cook County is identical with that involving funds of the State of Illinois previously considered by the Board, and that the statute with regard to the payment of interest on deposits of the county should be interpreted in the same manner and as requiring the payment of interest on deposits.

> After discussion, the secretary was requested to advise the Federal Reserve Agent at Chicago that, in the circumstances, it is the Board's opinion on the information at hand that the payment of interest on deposits of county funds made by the treasurer of counties in Illinois having more than 150,000 inhabitants is required under the State law within the

meaning of section 19 of the Federal Reserve Act, and, accordingly, that a member bank may lawfully pay interest on such deposits which are payable on demand.

Reference was made to the letter received from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago under date of September 25, 1933, advising that at the meeting of the board of directors of the bank on September 22, 1933, it was unanimously voted to extend the leave previously granted to Governor McDougal to January 1, 1934, with full compensation.

The Secretary was requested to advise Mr. Stevens that the Board approves the salary payment involved in the action of the directors of the Chicago bank.

Consideration was also given to a letter dated October 4, 1933, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, stating that, at the meeting of the executive committee of the board of directors of the bank held on October 2, 1933, it was voted, subject to the approval of the Federal Reserve Board, to establish, effective immediately and until further notice, a rate of 4% per annum for all advances to member banks on their time or demand promissory notes under the provisions of section 10(b) of the Federal Reserve Act, as amended, for all direct loans for nonmember State banks and trust companies under the provisions of section 404 of the Act of March 24, 1933, and for all advances to individuals, partnerships or corporations on the promissory notes of such individuals, partnerships or corporations secured by direct obligations of the United States under section 13 of the Federal Reserve Act, as amended. The letter also stated that this action was taken in the light of the recent reductions in the rate charged by the Reconstruction Finance Corporation on its loans to banks, and of the view of the Federal Reserve Bank of New York that the rate charged on the three classes of loans referred to should be uniform.

> The Secretary was requested to advise the Federal Reserve Bank of New York that the Board approves the rates referred to, effective as of October 2, 1933.

Governor Black then stated that upon his return to the office he had discussed with Mr. Martin the delays which have occurred recently in connection with applications for membership in the Federal Reserve System submitted to the Board through the various Federal reserve banks; that it appears the Board is taking entirely too much time to handle the applications; that in his opinion the work in this and other connections will be greatly increased in the near future and after the first of the year; and that he is definitely of the opinion that the Division of Examinations and the Legal Division should have additional help. He stated that there have been some instances in the Division of Examinations where applications for membership have been held since July, and where they have been held in the Legal Division for from thirty to forty days, and he expressed the opinion that the Board must expedite this phase of its work before the first of January in order to avoid subjecting itself to serious criticism.

There was a discussion as to the reasons for the delay in particular instances, Mr. Paulger stating that in many cases it is necessary to hold applications pending the receipt of additional information from the Federal reserve bank and in many cases the applicant bank has failed to furnish necessary data. Mr. Wyatt stated that his office is overwhelmed with inquiries which have been received direct from member banks and he suggested that the Board might consider the policy of requiring the submission of all such inquiries to the Federal reserve bank in the district in which the inquiry arises, which would relieve his division of considerable detailed work and enable it to concentrate on the more important matters. Both Messrs. Paulger and Wyatt stated that they realize the great amount of work which is coming to their respective divisions, and that they are trying to build up their forces as rapidly as possible.

After discussion, Messrs. Thomas and Szymczak were appointed members of a committee to take up with the staff the question of what steps should be taken to enable the Board to handle its work expeditiously, and to make recommendations to the Board with regard thereto.

At this point, Messrs. Smead, Paulger and Vest left the room, and Mr. Miller and Mr. Morrill, Secretary, joined the meeting.

Reference was made to the action taken earlier in the meeting with regard to advising all Federal reserve banks that it was not within the province of the Board to pass upon purchases of real estate by Federal reserve banks on which to erect bank buildings, and Mr. Miller stated that, particularly in view of the long established procedure of the Board of requiring that such matters be submitted to the Board for approval, he was opposed to the action.

Upon inquiry regarding the Board's authority in the matter, Mr. Wyatt stated that he would prefer to have that question referred to him so that he could study the matter and ascertain the background for the long standing practice of the submission of such matters by the Federal reserve banks to the Federal Reserve Board.

After some further discussion, Mr. Hamlin moved that the Board reconsider its action with regard to advising Federal reserve banks that it is not within the Board's province to pass upon purchases of real estate by Federal reserve banks.

> Mr. Hamlin's motion was put by the chair and carried, and it was understood that Governor Black would advise Governor Harrison accordingly, and that the Board would give further consideration at a meeting to be held tomorrow morning to the request of the Federal Reserve Bank of New York for approval of the purchase by the New York bank of the Montauk property.

The minutes of the meetings of the Federal Reserve Board held on September 12, 13, 15, and 16, 1933, were approved.

The Board then considered and acted upon the following matters:

Letter dated October 5, 1933, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated October 5, 1933, from Mr. Newton, Chairman of the Federal Reserve Bank of San Francisco, October 6, 1933, from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, and October 7, 1933, from Mr. Powell, Chief Statistician of the Federal Reserve Bank of Minneapolis, and Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, 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.

Letter dated October 6, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by three members of the Board, replying to his memorandum of August 28 recommending approval of a reduction in capital of The Central National Bank of London, Ohio, from $100,000 to $50,000 and the immediate increase of such capital to $100,000 by the sale of $50,000 of preferred stock; the released capital in the amount of $50,000 to be used to eliminate an equal amount of estimated losses, securities depreciation and doubtful assets as classified in a report of examination of the bank as of March 15, 1933. 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, while the corrections contemplated by the proposed plan of reduction in capital are desirable, it is observed that, on the basis of the last report of examination as of March 15, 1933, the bank will still be in a frozen condition with $288,000 invested in loans as compared with deposits of $241,700, and with 56% of its loans classified as slow; that the extent of local participation, if any, in the purchase of the preferred stock is not indicated, although the shareholders are apparently being relieved through the capital reduction of an assessment liability aggregating $50,000; and that it is assumed that the Comptroller's office has given consideration to the foregoing matters in approving the capital reduction.

Approved.

Reply on October 7, 1933, approved by three members of the Board, to a letter dated September 29 from Mr. Newton, Federal Reserve Agent at Atlanta; the reply reading as follows:

"Reference is made to your letter of September 29, 1933, in which you advise that, on September 27, 1933, you attended a conference of bankers from a number of cities in the southeastern section of the country at which one of the matters discussed was the practice of member banks with respect to the absorption of collection or exchange charges in connection with items received by them on deposit. It is noted that the conference, by a majority vote, adopted a resolution on this subject, a copy of which you inclosed with your letter. It is also noted that Mr. R. C. Williams, Chairman of the meeting, in a letter, a copy of which you inclosed, requests that the Federal Reserve Board issue a definite ruling as to the interpretation of the law with respect to this matter.

"The Federal Reserve Board has given careful consideration to this matter but does not feel that it is possible to issue a general ruling by reference to which it could be determined definitely under the circumstances of all cases whether the absorption of exchange or collection charges by member banks is lawful or unlawful. Questions as to whether such an absorption of charges does or does not constitute a payment of interest within the meaning of Section 19 of the Federal Reserve Act, forbidding member banks to pay interest on deposits payable on demand either directly or indirectly by any device whatsoever, must be determined as and when they arise in particular cases and in the light of the special facts of each such case. As pointed out to you in the Board's letter of September 21, 1933, the absorption of exchange or collection charges in an amount equivalent to a certain percentage of the amount of the balance of the depositor, in the Board's opinion, is clearly in violation of the law on this subject, and no member bank wherever located may lawfully absorb exchange or collection charges on such a basis.

"The Board feels that the banks and the clearing house associations should themselves consider whether, in the light of the spirit and purpose of the prohibition of the statute upon the payment of interest, the practice which they wish to follow with respect to the absorption of exchange or collection charges is lawful. If in any case it appears questionable whether the practice proposed conforms to the requirements of the law on this subject, the question may be submitted, if desired, to the Federal Reserve Bank of the district for consideration; and, of course, the Federal Reserve Bank, in cases where it appears necessary, may present the matter to the Federal Reserve Board with a request for a ruling. Such a request should be accompanied by an opinion of the Bank's counsel.

"Referring to your suggestion that the substance of the Board's letter to you of September 21, 1933, be communicated to member banks, you are advised that the Board has sent a copy of that letter to each Federal Reserve Agent, with the request that the matter be taken up with any of the clearing house associations located in his district which are following practices in conflict with the spirit "or the letter of the law on this subject and that he endeavor to have any such associations cooperate voluntarily in a modification or adjustment of this practice which will bring them into conformity with the statute. The Board has no objection, however, to your communicating the substance of its letter of September 21 to such member banks as you may deem desirable."

Approved.

The Secretary reported that the Chairman of the Board and the Comptroller of the Currency had concurred in the designation at the meeting on September 30, 1933, of Mr. Szymczak as a member of the Executive Committee, and as chairman thereof in the absence of the Governor, for the fourth quarter of the current year, the designation to be effective on October 2, 1933.

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

Applications for ORIGINAL Stock:	Shares	
District No. 4.		
First National Bank, Sharon, Pa.	216	216
District No. 7.		
Peoples National Bank of Grand Rapids, Mich.	600	
American National Bank of Kalamazoo, Mich.	174	
First National Bank in Paxton, Paxton, Ill.	36	810
District No. 8.		
The Security National Bank, Cairo, Ill.	72	72
	Total	1,098

Approved.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

E. R. Black
Governor.