

A meeting of the Federal Reserve Board was held in Washington on  
Monday, October 16, 1933, at 11 a. m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Martin, Assistant to the Governor  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Leonard, Federal Reserve Examiner  
Mr. Wingfield, Assistant Counsel  
Mr. Boatwright, Assistant Counsel

ALSO PRESENT: Mr. Benjamin H. Brewster, Jr., )  
President, Union Trust Com- )  
pany of Maryland )  
Messrs. W. Graham Boyce and Charles )  
W. Hoff, Vice Presidents, Union )  
Trust Company )  
Messrs. Walter H. Buck and H. Webster )  
Smith, Counsel for the Union )  
Trust Company ) Members of  
Messrs. Millard F. Tydings and ) the delega-  
Phillips Lee Goldsborough, ) tion favor-  
United States Senators from ) ing consum-  
Maryland ) mation of  
Mr. John J. Ghingher, Bank Commis- ) the pro-  
sioner of the State of Maryland ) posed plan  
Mr. John D. Hospelhorn, Deputy Bank ) of reorgani-  
Commissioner of the State of ) zation of  
Maryland ) the Union  
Mr. William Preston Lane, Jr., ) Trust Com-  
Attorney General of the State of ) pany of  
Maryland ) Maryland  
Messrs. S. P. Nelson, William H. )  
Meese, R. S. B. Hartz, B. Howell )  
Griswold, H. M. George, Moses S. )  
Hecht, George P. Bagby, W. Bladen )  
Lowndes, Lloyd B. Wilson, Michael )  
A. Muller, Charles M. Cohn, E. M. )  
Sturtevant and A. J. Hazlett. )

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Mr. Carl S. Bloede, Chairman, and  
Messrs. C. W. Roberts, J. T.  
Fritz, L. W. Barroll, J. Cookman  
Boyd, Jr., and Robert E. Kanode.

) Members of  
) the commit-  
) tee repre-  
) senting the  
) depositors  
) dissenting  
) from the pro-  
) posed plan of  
) reorganization  
) of the Union  
) Trust Company

Governor Black welcomed the two delegations, and suggested that Mr. Bloede, as Chairman of the committee representing the depositors dissenting from the proposed plan of reorganization of the Union Trust Company of Maryland, Baltimore, Maryland, present such information as the committee might desire to have considered with regard to the proposed reorganization and the application of the Union Trust Company for membership in the Federal Reserve System.

Mr. Bloede introduced Mr. Kanode, of counsel for the committee, as spokesman for the committee, who made a statement setting forth the objections raised by the dissenting depositors to the proposed reorganization plan. During his statement, Mr. Kanode said that his committee did not object to the reorganization of the trust company, and, on the contrary, felt that it should be reorganized and that it should be admitted to membership in the Federal Reserve System, but that the committee felt that the plan of reorganization adopted should be one which would be equitable from the standpoint of the depositors. He reviewed the history of certain litigation involving the constitutionality of the Maryland statute under which the bank is being reorganized and stated that the matter is now pending in the Court of Appeals of Maryland.

Upon inquiry of Governor Black as to the particulars in which the

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committee of dissenting depositors desired revision of the plan, Mr. Kanode stated that (1) there should be an effort on the part of the officers, directors and shareholders to furnish funds for the purpose of restoring the trust company's capital, and (2) that the stock of the trust company, instead of being turned over to the City Certificates Corporation, should be trusteeed for the benefit of the depositors and held by the trustees until the depositors are paid in full. He stated that if these two changes were made in the proposed plan, there would be no objection to the plan so far as his committee is concerned, although the committee feels that, with proper cooperation between the trust company and the agencies of the Federal Government, a greater proportion of deposits than the 20% now proposed could be made available, and that the reorganization plan should be revised so as to eliminate all preferences of depositors which might make doubtful the legality of the plan.

Mr. Kanode also stated that in his opinion there is no liability on the part of the trust company, under the plan of reorganization, in connection with the certificates of beneficial interest proposed to be issued by the City Certificates Corporation, but that the certificates would be the obligations of the City Certificates Corporation.

Governor Black then called on Mr. Brewster as spokesman for the delegation in favor of the plan of reorganization, and Mr. Brewster stated that Mr. Smith of counsel for the trust company would make a statement to the Board.

Mr. Smith outlined certain points which were given consideration in connection with the formulation of the plan now proposed, referring particularly to the reasons for the phases of the plan to which objection was

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made in the statement of Mr. Kanode. He also referred to certain improvements which have taken place in the trust company's condition since the proposed plan was first presented to the shareholders and during the period that the company has been open on a restricted basis. He then discussed briefly the question to what extent, if any, the Union Trust Company would be liable on the certificates of beneficial interest proposed to be issued by the City Certificates Corporation, and stated that, in his opinion, any liability on the part of the trust company which might result from the issuance of such certificates would not be sufficient to impair the capital stock of the bank within the meaning of section 9 of the Federal Reserve Act, and that in his opinion the certificates do not constitute a liability on the part of the Union Trust Company. There followed a brief discussion with regard to the latter point.

Mr. Brewster then reviewed his connection with the Union Trust Company and his efforts to work out a suitable plan of reorganization, and stated that he had interviewed the larger depositors and 153 of the depositors who have \$5,000 or less on deposit in the Union Trust Company and that they had all assured him of their support. He also stated that he is firmly convinced that without becoming a member of the Federal Reserve System there will be no other course open to the trust company than to go into receivership. Upon inquiry as to why this was the case, Mr. Brewster stated that he believed the community would not continue to deposit with the bank unless it were a member of the Federal Reserve System and that the trust company could not occupy its proper place in the community without being admitted to membership. He also stated that he had prepared a written state-

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ment for presentation to the Board which he would request Mr. Buck of counsel for the trust company to read to the Board. Mr. Buck, after expressing his opinion that the proposed plan is a desirable one, read the statement prepared by Mr. Brewster, a copy of which has been placed in the Board's files.

Mr. John J. Ghingher, Bank Commissioner of the State of Maryland, stated that he had approved the proposed plan of reorganization; that he feels it is practicable; and that if the bank is permitted to open and to become a member of the Federal Reserve System, he feels it will succeed, but that there is serious doubt as to its success if it does not become a member.

Governor Black then requested each of the delegations to present to the Board, not later than Wednesday, October 18, 1933, a brief containing, in addition to any further information the delegation may wish to submit, an opinion on the question whether the certificates of beneficial interest proposed to be issued by the City Certificates Corporation would constitute a liability on the part of the Union Trust Company. He stated that this is an important question in considering whether the trust company, if reopened in accordance with the proposed reorganization plan, would have an unimpaired capital, and that it is a question which the Federal Deposit Insurance Corporation would be required to consider in connection with the trust company's application for insurance of its deposits.

Statements were then made by Senators Tydings and Goldsborough, in which they stressed the desirability of an early decision by the Board in the matter and the importance to the community of the reopening of the

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bank and the aid which would be given to business in Baltimore and the State of Maryland by the release of deposits proposed by the plan.

Mr. William Preston Lane, Jr., Attorney General for the State of Maryland, stated that he had approved the plan and feels that the courts will declare the emergency banking act of Maryland under which the plan was formulated constitutional and the details of the plan legal. He also stated that in his opinion the only alternative to the reopening of the bank under the plan submitted is receivership, which would result in serious consequences for the city of Baltimore.

Mr. Smith then called upon Messrs. George P. Bagby, President of the Western Maryland Railway Company; Mr. H. M. George, Treasurer of the Davis Coal and Coke Company; Mr. R. S. B. Hartz of the Baltimore and Ohio Railroad Company; Mr. A. J. Hazlett, President of the Eastern Rolling Mills; Mr. Moses S. Hecht, President, Hecht Bros.; Mr. E. M. Sturtevant, Counsel for the Consolidated Gas, Electric Light & Power Company; Mr. S. P. Nelson, Treasurer of Johns Hopkins University; and Mr. Michael A. Muller, President of O'Neill & Company, all of whom represent large depositors in the Union Trust Company, and each of them expressed approval of the plan and agreement that it is highly desirable that the bank be reorganized and its deposits released as soon as possible as a stimulus to business in Baltimore and the State of Maryland. Mr. W. H. Meese, President of the Baltimore Association of Commerce, read a prepared statement regarding the proposed reorganization, a copy of which has been placed in the Board's files.

Thereupon the members of the two delegations, and Messrs. Paulger,

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Leonard, Wingfield and Boatwright of the Board's staff, left the room.

The minutes of the meetings of the Federal Reserve Board held on September 19, 22, 26, and 28, 1933, were approved.

The Board then considered and acted upon the following matters:

Letter dated October 13, 1933, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated October 12, 1933, from Mr. McClure, Chairman of the Federal Reserve Bank of Kansas City, and October 13, 1933, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, and Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, 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.

Telegraphic reply on October 13, 1933, approved by five members of the Board, to a telegram of the same date from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, stating that the executive committee of the bank, at its meeting on that date, voted to adopt, subject to the approval of the Federal Reserve Board, rates of 4% per annum on advances to member banks under section 10(b) of the Federal Reserve Act, as amended by the Act of March 9, 1933, 4% per annum on advances to non-member banks and trust companies under section 404 of the Act of March 9, 1933, as amended, and 4% per annum on advances to individuals, partnerships or corporations secured by direct obligations of the United States under section 13 of the Federal Reserve Act, as amended, effective October 16, 1933. The reply stated that the Board approves the rates referred to.

Approved.

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Memorandum dated October 11, 1933, from Mr. Wyatt, General Counsel, recommending that Mr. Alfred K. Cherry be appointed to the position of Assistant Counsel in the office of General Counsel, with salary at the rate of \$5,500 per annum, effective as of the date upon which he enters upon the performance of his duties; the recommendation having been approved by five members of the Board on October 13, 1933.

Approved.

Reply on October 13, 1933, approved by seven members of the Board, to a letter dated October 5 from Mr. Case, Federal Reserve Agent at New York, stating that the board of directors of the Federal Reserve Bank of New York, at its meeting on that date, voted to recommend to the Board the designation of Messrs. Charles A. Robinson and George W. Siver, employees in the bank examinations department, as assistant examiners in the Federal reserve agent's department of the bank. The reply stated that the Board approves the designation of Messrs. Robinson and Siver as assistant examiners without change in compensation. The reply stated also that it is noted from the agent's letter that the name of Herbert W. Bullock, whose designation as an assistant examiner in the agent's department was approved by the Board on September 21, should have been shown as Robert W. Bullock, and that the Board's records have been changed accordingly.

Approved.

Telegraphic reply on October 13, 1933, approved by five members of the Board, to a letter dated October 4 from Mr. Austin, Federal Reserve Agent at Philadelphia, requesting approval of the appointment of Messrs.



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L. C. Powers and H. V. Eichmann, now employed in the bank liquidation division and the credit department of the bank, respectively, as assistant examiners in the Federal reserve agent's department, with salaries at the rates of \$2,400 and \$1,980 per annum, respectively. The reply stated that the Board approves the appointments as requested with salaries at the rates stated.

Approved.

Letter dated October 14, 1933, to Mr. Helm, Deputy Governor of the Federal Reserve Bank of Kansas City, approved by five members of the Board, stating that, in accordance with the recommendation contained in his letter of October 4, the Board approves changes in the personnel classification plan of the Oklahoma City branch to provide for decreases in the salary ranges of the positions of "clerk" and "clerk in charge" in the accounting and non-cash collection departments of the bank, respectively.

Approved.

Letter dated October 14, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by five members of the Board, referring to the Board's telegram to the agent under date of September 18 approving the temporary appointment of six examiners in the Federal reserve agent's department of the bank with a salary range of from \$3,600 to \$5,000 per annum, with the understanding that complete information as to each examiner would be forwarded promptly. The letter stated that it appears from Assistant Federal Reserve Agent Young's letters of September 18, 19, 23, and 25, and October 2 and 3, and his telegrams dated October 4, 1933, that the Federal reserve agent has employed temporarily as examiners in the

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Federal reserve agent's department and transferred to the Federal Deposit Insurance Corporation, effective as of the dates indicated, the following individuals, with salaries at the rates stated:

<u>Name</u>	<u>Salary per Annum</u>	<u>Date of Employment</u>	<u>Date Transferred to F.D.I.C.</u>
H. C. Crays	\$4,500	September 19	September 27
W. J. Penningroth	4,500	" 25	" 27
Lyman C. Sorensen	4,000	" 23	" 30
Harold G. Hudson	4,000	" 25	" 27
Harold M. Cox	3,600	" 22	" 27
Herbert W. Sadler	3,200	October 2	?

The letter stated also that a review of the information submitted with respect to these men indicates that all but Messrs. Sorensen and Cox are indebted to banking institutions; that in the case of Mr. Cox no statement is made as to his indebtedness and the agent's advice in this connection will be appreciated; that in the case of Mr. Sorensen the statement is made that he is not in debt; and that, in the circumstances, the Board approves the temporary appointment of Mr. Lyman C. Sorensen as an examiner in the Federal reserve agent's department of the bank with salary at the rate of \$4,000 per annum, effective September 23, 1933, and defers further action with respect to the five remaining individuals pending receipt of more specific information concerning them in the light of the requirements set forth in the Board's circular letter X-7425, dated April 29, 1933, including information as to whether they have any outside business connections. The letter stated further that it appears from the information submitted in Mr. Young's letters that Mr. Crays owes \$5,000 for the purchase of bank stock, and that Mr. Sadler owes \$1,750 of which \$950 represents indebtedness to the Aurora National Bank, Aurora, Illinois; that it appears

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also from the statements of indebtedness submitted with the agent's letter of September 26 that Mr. Penningroth is heavily indebted, to the extent of \$29,350 of which \$750 represents indebtedness to the City National Bank and Trust Company, Battle Creek, Michigan, \$3,600 to the Union & Peoples Company of Jackson, Michigan, and \$25,000 to the Guardian Holding Company of Detroit, Michigan; and that Mr. Hudson owes \$930 to the First State Bank, Decatur, Michigan, a nonmember. The letter added that the Board feels strongly that, in considering applicants for appointment to positions on the bank's examining staff, men should not be selected who are involved financially, are heavily in debt, or are indebted to banking institutions, particularly to member banks; requested that the agent furnish the Board with further information with regard to the transfer of Mr. Sadler and certain assistant examiners to the Federal Deposit Insurance Corporation; and stated that, according to the Board's records, E. H. Anderson is listed as an examiner rather than as an assistant examiner as stated by Mr. Young, his appointment having been approved as of October 3, 1932; that in the case of Harry Dearborn, the Board appears to have no information concerning his appointment or employment; and that it will be appreciated if the agent will furnish the necessary information covering the questions raised regarding these two men.

Approved.

Letter dated October 14, 1933, to the Federal reserve agents at all Federal reserve banks, approved by five members of the Board, stating that, supplementing the Board's circular letter X-7425, dated April 29, 1933, regarding indebtedness of officers and employees, the Board desires

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to point out the desirability of applying the principles set forth in such letter to the selection of individuals for appointment to positions on the examining staffs of the Federal reserve banks; that, in view of the growing necessity for examiners of the Federal reserve banks to conduct, or participate in, examinations of nonmember banks in connection with applications for membership in the Federal Reserve System or in the Federal Deposit Insurance Fund, or for other reasons, it is clearly undesirable for employees, in the Federal reserve agent's departments of the respective reserve banks, engaged in audits and examinations to be indebted, directly or indirectly, to any bank or banking institution in their respective Federal reserve districts; and that attention is called to the fact that the Board's circular letter X-7595, dated September 20, 1933, regarding appointment of examiners at Federal reserve banks, required that detailed reports be made concerning persons recommended for appointment including:

"Information as to applicant's indebtedness, if any, whether indebted to member banks, their subsidiaries or affiliates, when indebtedness was contracted, its original amount, progress made in liquidation, and whether, if tendered appointment by the Federal reserve bank as an examiner, the applicant will resign any official connection he may have with other business concerns and discontinue any other existing relationship which may have an undesirable effect upon his service as an employee of the Federal reserve bank."

The letter stated also that the Board feels strongly that, in considering applicants for appointment to positions on the examining staffs of the Federal reserve banks, men should not be selected who are involved financially, are heavily in debt, or are indebted to banking institutions, particularly to member banks.

Approved.

Letter dated October 13, 1933, to the board of directors of the

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"Citizens Bank", Hartford, Kentucky, approved by six members of the Board, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the number of shares of stock of the Federal Reserve Bank of St. Louis to which the bank will be entitled upon the basis of its capital and surplus as of the date upon which its membership becomes effective.

Approved.

Telegram dated October 13, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by five members of the Board, referring to the application of the "First State Bank", Milford, Michigan, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to the First State Bank, the Federal Reserve Bank of Chicago is authorized to cancel such stock and make a refund thereon.

Approved.

Reply on October 12, 1933, approved by five members of the Board, to a letter dated October 2 from Mr. Hoxton, Federal Reserve Agent at Richmond, with reference to the capital structure of a bank in North Carolina which is considering applying for membership in the System, the bank in question having a capital of \$30,000, (which, on the basis of the population of the town in which it is situated, is sufficient) surplus of \$100,000, and undivided profits and reserves of \$48,500, as compared with deposits of \$1,417,700. Mr. Hoxton's letter stated that

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the directors of the bank would willingly agree to maintain a capital and surplus in accordance with the regular condition of membership numbered fifteen, but that they object to increasing the capital by transfer from surplus because of the added expense in the form of taxes, as, under the laws of the State of North Carolina, investments in bonds of the United States Government and the State of North Carolina are deductible for the purposes of taxation from a bank's surplus, but not from its capital, and that advice is requested as to whether, under these conditions, the Board would require an increase in the capital stock of the bank as a condition of membership. The reply stated that it is desirable that the capital of a bank represent a reasonable proportion of the total capital accounts; but that, in the circumstances described by the agent, assuming that the bank's condition otherwise warrants approval of the application, the Board would not require an increase in the capital stock of the bank as a condition of membership, but would require the transfer of at least \$15,000 from undivided profits to surplus account in order that the combined capital and surplus of the bank would amount to at least 10% of the deposit liabilities, as required under the Board's general condition of membership numbered fifteen.

Approved.

Letter dated October 14, 1933, to Mr. Austin, Federal Reserve Agent at Philadelphia, approved by five members of the Board, replying to Acting Assistant Federal Reserve Agent Fenner's letter of September 7 advising that the Integrity Trust Company of Philadelphia, a member State bank, has acquired 625 shares of the stock of the Philadelphia National Bank and 214 4/14 shares of the stock of the Fire Association of Philadelphia, through the liquidation of a loan of one of its customers.

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The reply stated that Mr. Fenner has called attention to the fact that the Integrity Trust Company is subject to a condition of membership which prohibits it from acquiring an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company, and that, under the provisions of the Banking Act of 1933, a State member bank may not purchase stock in another corporation, except in certain limited classes of cases, the circumstances of which are not here applicable; that, in view of the reason given for the acquisition of the stock, the Board will not take any action in the matter at this time, but that the agent is requested to advise the Integrity Trust Company that it should dispose of the stock as soon as possible, and that it will be appreciated if the agent will advise the Board when such stock has been disposed of.

Approved.

Reply on October 13, 1933, approved by five members of the Board, to a letter dated September 29 from Mr. Hoxton, Federal Reserve Agent at Richmond, relative to a proposed agreement whereby the Kanawha Valley Bank, of Charleston, West Virginia, a member bank, would assume the deposit liabilities and acquire certain assets of the Capital City Bank, of Charleston, West Virginia, a nonmember bank, and recommending that the Board give the Kanawha Valley Bank permission to purchase the assets and assume the deposit liabilities of the bank as provided in the proposed agreement. The reply stated that the Board cannot undertake to approve any such agreement without full information as to the transaction, including an appraisal of the assets to be taken over, but that, in the circumstances, the Board will interpose no objection at this time to the proposed transaction. The reply

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stated also that whether the transaction actually results in a change in the character of the assets or in the scope of the functions of the member bank within the meaning of the conditions of membership is a matter of fact to be determined; that, if the agent's examiners do not appraise the assets to be taken over prior to their acquisition by the Kanawha Valley Bank, it is desired that they participate in the next examination of the bank; that the report of such examination should include a classification of any assets remaining in the bank which had been acquired from the Capital City Bank and should also include a report of any losses which have been charged off on account of the assets so acquired; and that, following the next examination of the Kanawha Valley Bank, the agent is requested to make a further report to the Board containing full information as to the condition of the bank and the nature of the changes, if any, by reason of the transaction in the general character of its assets or in the scope of the functions exercised by it, and to submit a recommendation as to the action to be taken by the Board in the circumstances.

Approved.

Letter dated October 13, 1933, to "The First National Bank of McComb City", McComb, Mississippi, approved by six members of the Board, stating that, in addition to the authority heretofore granted to the bank to act, when not in contravention of State or local law, as trustee, executor, and administrator, the Board has approved the bank's application for permission to act as guardian of estates, the exercise of such right being subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

Approved.



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Letter dated October 13, 1933, to the "Union National Bank in Kansas City", Kansas City, Missouri, 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 Missouri, the exercise of all such rights being subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board. The letter stated also that the Board notes from the examination reports of the Fidelity National Bank and Trust Company, Kansas City, Missouri, that many trusts and trust department accounts have been adversely commented upon; that it feels that, if the Union National Bank in Kansas City is tendered any of the trusts or trust department accounts now held by the Fidelity National Bank and Trust Company, it should carefully scrutinize their condition and should not accept any such trusts or accounts, which, through their assumption, may be detrimental to the interests of the Union National Bank; and that the Board has requested the Comptroller of the Currency to have a national bank examiner visit the Union National Bank for the purpose of assisting it in determining the trusts or accounts now held by the Fidelity National Bank and Trust Company which may be detrimental to the interests of the Union National Bank if assumed by it.

Approved.

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Reply on October 13, 1933, approved by five members of the Board, to a letter dated September 23 from Governor Norris of the Federal Reserve Bank of Philadelphia inclosing a copy of a letter addressed to him by the president of the Western Saving Fund Society of Philadelphia with regard to the question whether the deposits of the Society may be classed as savings deposits under the Board's regulations. The reply referred to the rules and regulations of the Society applicable to deposits, as set forth in a letter dated September 22, 1933, from the president of the Society, and stated that, except for failure to comply with the requirement that the prescribed notice of intended withdrawal be given in writing, deposits made in accordance with such rules and regulations would appear to comply with the definition of "savings accounts" in the Board's Regulation D and of "savings deposits" in the Board's Regulation Q. The reply stated also that it is noted that the president of the Society states that withdrawals upon shorter notice than two weeks are permitted only in cases of real emergency, and that, in this connection, it may be pointed out that it would be necessary for the Society, if it should become a member of the Federal Reserve System, to comply with the provision of section 19 of the Federal Reserve Act that no member bank shall waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement, and with the provisions of section VI of the Board's Regulation Q on this subject.

Approved.

Reply on October 13, 1933, approved by five members of the

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Board, to a letter dated September 30 from Mr. R. S. Hecht, Chairman of The Hibernia National Bank in New Orleans, Louisiana, referring to the matter of the absorption of exchange or collection charges by member banks in connection with items received by them on deposit, and suggesting that the Board issue a definite ruling as to the law with respect to this matter. The reply stated that the Board has given careful consideration to the 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; that 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; that, as pointed out to Mr. Hecht in the Board's letter of September 26, 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 the subject; and that no member bank wherever located may lawfully absorb exchange or collection charges on such a basis. The reply stated also that 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

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absorption of exchange or collection charges is lawful; that, if in any case it appears questionable whether the practice proposed conforms to the requirements of the law on the subject, the question may be submitted, if desired, to the Federal reserve bank of the district for consideration; and that, of course, the Federal reserve bank, in cases where it appears necessary, may present the matter to the Board with a request for a ruling. The reply stated further that the Board is not informed as to the practice of the Atlanta banks with regard to the absorption of exchange or collection charges in connection with accounts of depositors other than correspondent banks; but that, in view of Mr. Hecht's statement on the subject, the Board will take the matter up with the Federal Reserve Agent at Atlanta with a view to effecting a correction of the practice of member banks in this respect if it appears to be unlawful.

Approved, together with a letter dated October 13, 1933, to Mr. Newton, Federal Reserve Agent at Atlanta, also approved by five members of the Board, inclosing a copy of Mr. Hecht's letter, and a copy of the Board's reply thereto; calling attention to Mr. Hecht's statement as to the practice of Atlanta banks with respect to the absorption of exchange charges for railroads, express companies, etc.; and requesting that the agent ascertain whether the practice of member banks in Atlanta in this respect is in conformity with the law on this subject, and, if unlawful, that he communicate with such member banks with a view to having such changes made as may be necessary to bring their practices into harmony with the statute, and that he advise the Board of the results of his communication with the Atlanta member banks in this connection.

Telegraphic reply on October 14, 1933, approved by five members of the Board, to a telegram dated October 9 from Mr. McClure, Federal Reserve Agent at Kansas City, with regard to the legality of a service charge plan in force among certain banks in the Tenth Federal Reserve District. The reply stated that the Board understands that, under the

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plan, the potential earning power of a depositor's balance is calculated according to a certain percentage of the amount of the balance and that the amount of service charges imposed on the depositor is subject to a deduction of an amount equivalent to the said percentage of the depositor's balance; and that, on the basis of the information submitted in the agent's telegram, the Board is of the opinion that the deduction from the amount of service charges imposed on the depositor of an amount equivalent to a certain percentage of his balance, which is payable on demand, is an indirect payment of interest within the meaning of section 19 of the Federal Reserve Act, and, accordingly, that no member bank may lawfully make a deduction from service charges on such a basis with reference to deposits payable on demand.

Approved.

Telegraphic reply on October 14, 1933, approved by five members of the Board, to a telegram dated October 7 from Deputy Governor Paddock of the Federal Reserve Bank of Boston referring to a letter addressed to the bank under date of October 6 by Acting Secretary of the Treasury Acheson, relative to the continuation of the acceptance by Federal reserve banks from nonmember banks of gold coin and gold certificates, and inquiring whether the Board's telegram of March 9, 1933, with regard to the absorption by Federal reserve banks of abrasion and shipping charges, is still in effect. The reply stated that section 6 of the Executive Order of April 5, 1933, provided that the Secretary of the Treasury would in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion, or gold certificates delivered to a member bank or

Federal reserve bank in accordance with sections 2, 3 or 5 of the Executive Order, including the cost of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs; that this authorization, however, is not contained in the Executive Order of August 28, section 11 of which revokes the Executive Order of April 5; and that the Board has also been advised by the Treasury that it will not reimburse the Federal reserve banks for abrasion on gold coin beyond the usual limit of tolerance. The reply stated also that, in the circumstances, the Board feels that the Federal reserve banks should no longer assume any abrasion loss on gold coin deposited with them or tendered in exchange for other forms of currency or any shipping charges on gold coin or gold bullion, and that the Board sees no objection to the reserve banks assuming shipping charges on gold certificates received from member banks.

Approved, and the Secretary was requested to send a copy of the telegram to all other Federal reserve banks for their information.

Report of Standing Committee dated October 13, 1933, recommending approval of the following change in stock at a Federal reserve bank:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 6.</u>		
Citizens National Bank of Morgan City, Morgan City, Louisiana.	66	66

Approved.

Thereupon the meeting adjourned.

Robert Merrill  
Secretary.

Approved:

E. R. Black  
Governor.