

A meeting of the Federal Reserve Board was held in Washington on Wednesday, October 18, 1933, at 11:15 a.m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Martin, Assistant to the Governor  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Chase, Assistant Counsel  
Mr. Chamberlin, Federal Reserve Examiner

The minutes of the meeting of the Executive Committee of the Federal Reserve Board held on September 30, 1933, were approved and the actions recorded therein were ratified unanimously.

The Board then considered and acted upon the following matters:

Letter dated October 17, 1933, to Mr. Williams, Chairman of the Federal Reserve Bank of Cleveland, approved by six members of the Board, stating that careful consideration had been given to the action taken by the board of directors of the bank at its meeting on October 6 appropriating \$8,000 as an addition to the personnel loan fund of the Federal Reserve Bank of Cleveland, subject to the approval of the Board, as set forth in the chairman's letter of October 9 which was handed to Mr. Morrill by Mr. Strater, Cashier of the Federal Reserve Bank of Cleveland. The letter stated also that Mr. Strater had supplemented the information contained in the chairman's letter by explaining the situation which had come to the attention of the board of directors of

10/18/33

-2-

the Federal Reserve Bank of Cleveland with respect to indebtedness incurred at high interest rates by a considerable number of minor employees of the bank, the view of the board of directors that it is advisable and desirable to make arrangements through the use of the personnel loan fund for the liquidation of such indebtedness, that substantially all of the present fund amounting to a total of \$7,500, which includes accrued earnings of \$1,500, has been loaned to employees, and that it is believed that the full amount of the additional \$8,000 would be required for the purpose above indicated at the present time, but that, as repayments are received, it is the purpose to reduce the capital fund. The letter stated further that, in the circumstances, the Board approves the action taken by the board of directors of the Federal Reserve Bank of Cleveland at its meeting on October 6, 1933, but that, since a review of the Board's records indicates that the Board has not approved a fund in any other Federal reserve bank in excess of \$10,000, the Board requests that the fund of the Federal Reserve Bank of Cleveland be reduced to an amount not exceeding \$10,000 as soon as it is feasible to do so after the accomplishment of the purpose immediately in view.

Approved.

Reply on October 17, 1933, approved by six members of the Board, to a letter dated September 14 from Mr. Case, Federal Reserve Agent at New York, submitting the application of the Underwriters Trust Company, New York, New York, for membership in the Federal Reserve System, and stating that the board of directors of the Federal reserve bank had considered the application and, in view of the unfavorable record of President

10/18/33

-3-

Korell, the weakness of the management in general, and the bank's exceptionally heavy and long term leases and poor earning power, had voted to recommend disapproval of the application, in which recommendation Mr. Case concurred. The reply stated that, as stated in the Board's letter of September 11, 1933 (X-7581a), it has been the consistent policy of the Board not to admit a bank to membership unless the Federal reserve bank and the Federal reserve agent recommended such admission; that, in accordance with its expressed policy the Board does not approve the application of the Underwriters Trust Company for membership at this time; and that it is suggested, therefore, that the agent communicate with the bank and suggest the withdrawal of its application. The reply also stated that, as in all such cases, the Board will be pleased to consider a new application for membership from the Underwriters Trust Company when, in the agent's opinion, the institution has effected a correction of, or such a material improvement in, the criticized features of its condition as to warrant the agent's favorable recommendation.

Approved.

Letter dated October 17, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by six members of the Board, replying to Assistant Federal Reserve Agent Young's letter of August 29 regarding the note of \$90,000 signed by the directors of the Iowa National Bank, Ottumwa, Iowa, which institution was included in the consolidation that resulted in the organization of the Union Bank and Trust Company of Ottumwa. The reply stated that one of the conditions of membership prescribed when the latter institution was admitted to membership in the

10/18/33

-4-

Federal Reserve System was that the note be eliminated from the bank's assets within one year from date of admission to membership, which period expired August 22, 1932; that by July, 1932, the note had been reduced to \$55,000; that on August 4, 1932, the Board extended until August 4, 1933, the time within which the elimination of the note could be completed; and that the Union Bank and Trust Company now requests that it be permitted to carry the note, which has been reduced to \$45,000, for another year. The reply stated also that the Board has considered the information submitted with Mr. Young's letter, including the financial statement of the individual said to be the most responsible signer of the note, and observes that the bank reports that the other signers on the note are responsible and that the reason advanced for desiring permission to carry the note for a further period is that the signers do not wish to sacrifice any of their holdings, and that it is the recommendation of the Federal reserve agent that the member bank be allowed to carry the note until May 1, 1934. The reply stated further that, in view of all of the circumstances, and the agent's recommendation that the bank be allowed a further extension of time in which to effect the elimination of the note, the Board will not take any action on account of the failure of the Union Bank and Trust Company to eliminate this note from its assets by August 4, 1933, provided that such note is reduced to \$25,000 by January 1, 1934, and eliminated entirely from the assets of the bank by May 1, 1934; and that the agent is requested to advise the member bank accordingly, and to keep the Board informed as to the progress made in reducing the amount of the note or

10/18/33

-5-

in eliminating it altogether from the assets of the bank.

Approved.

Reply on October 17, 1933, approved by six members of the Board, to a letter dated June 1 from Mr. Hoxton, Federal Reserve Agent at Richmond, inclosing an application for trust powers, made by the organizers of the proposed First National Bank and Trust Company of Keyser, West Virginia. The reply stated that the Board has considered the application and, in accordance with the recommendation of the executive committee of the Federal Reserve Bank of Richmond, and of the Comptroller of the Currency, will take no action thereon, but will be glad to give consideration to a new application by the bank after it has been in operation for at least one year and a report of an examination thereof, made by the Comptroller's office after the expiration of such period, is available.

Approved.

Reply on October 17, 1933, approved by six members of the Board, to a letter dated October 6 from Mr. Curtiss, Federal Reserve Agent at Boston, with respect to applications for voting permits filed by holding company affiliates under authority of section 5144, Revised Statutes as amended, and the provisions of the Board's Regulation P requiring that such applications be forwarded to the Board with the recommendation of the Federal reserve agent and that of the executive committee of the Federal reserve bank in his district, the agent's letter indicating that this requirement would cause delay and necessitate the calling of special meetings of the executive committee of the Federal Reserve Bank of Boston. The reply stated that, in the circumstances, the Board is

10/18/33

-6-

willing to accept the recommendation of the committee on admittance of State banks to membership in lieu of the recommendation of the executive committee of the bank in connection with applications for voting permits under the provisions of Regulation P.

Approved.

Reply on October 17, 1933, approved by six members of the Board, to a letter dated July 15 from Mr. Paddock, Deputy Governor of the Federal Reserve Bank of Boston, referring further to the question whether member banks may pay interest on demand deposits made with them by the Mutual Savings Central Fund, Inc., of Massachusetts, and inclosing, at the Board's request, an opinion of counsel for the Federal reserve bank upon this question. The reply stated that it appears that the Mutual Savings Central Fund, Inc., was incorporated under Chapter 44 of the Acts of 1932 of the Massachusetts General Court; that that Act constituted all the savings banks established, or to be established, under the laws of Massachusetts, a corporation; that the directors of such corporation are empowered to require each member savings bank to deposit with the corporation not more than 3% of such savings bank's deposits, thus creating a fund from which loans may be made by the corporation to its member banks temporarily in need of cash or holding investments which cannot readily be liquidated; and that, except for such deposits required from its members, the Mutual Savings Central Fund, Inc., does not appear to have authority to accept savings deposits nor deposits of any other kind. The reply stated also that, accordingly, after careful consideration, the Board concurs in the opinion of counsel for the Federal reserve bank that the Mutual Savings Central Fund, Inc., is not a "mutual savings

10/18/33

-7-

"bank" within the meaning of section 19 of the Federal Reserve Act; and that deposits made by it in member banks, therefore, are not excepted from the provision of that section prohibiting the payment of interest on deposits payable on demand.

Approved.

Reply on October 17, 1933, approved by five members of the Board, to a letter dated October 6 from Mr. Case, Federal Reserve Agent at New York, referring to the Board's letter of September 22, 1933 (X-7601), with respect to the absorption of exchange or collection charges by member banks. The reply stated that it is understood from the agent's letter that, after communicating with members of the various clearing house associations in the Second Federal Reserve District, it is his belief that the banks in that district are not following practices with respect to the absorption of exchange or collection charges which are in conflict with the provisions of the law regarding the payment of interest on deposits payable on demand; that, in the circumstances, it would appear that no useful purpose would be served by communicating with the various clearing house associations in the Second Federal Reserve District on the subject at this time, but that, if it should subsequently develop that any member banks in the district are following practices in this respect which are not in conformity with the law, the agent is requested to take the matter up with them with a view to effecting a modification of their practices so as to comply with the law.

Approved.

Governor Black then read a draft of a letter prepared by him in

10/18/33

-8-

accordance with the understanding reached at the meeting of the Board yesterday with regard to the application of the Continental Illinois National Bank and Trust Company, Chicago, Illinois, for permission to reduce its capital stock. There followed a detailed discussion of the proposed letter and of the corrections which appear to be necessary in the management of the bank and its condition, and consideration was given particularly to what position the Board should take, in connection with its action on the application, with regard to such corrections.

During the discussion, Mr. James stated that approval of the application by the Board without first requiring the corrections to be made, in his opinion, would amount to a recommendation of the plan of reorganization by the Board to the public and to the Federal Deposit Insurance Corporation, and that, until the management is improved, until the loans made to officers, directors and employees secured by the bank's own stock and now held by the bank contrary to law are charged off, and until the present shareholders have subscribed for additional common stock, he would be opposed to approving the application.

Mr. Leavell, President of the Continental Illinois National Bank and Trust Company, was invited into the meeting, and Governor Black advised him that in considering the bank's application the Board was concerned particularly with the management of the bank, which it feels should be improved, and with the loans to officers, directors and employees of the bank, and their interests, aggregating approximately \$30,000,000, a portion of which indebtedness was incurred in connection with purchases of the bank's stock. Mr. Leavell stated that the amount



10/18/33

-9-

of loans to officers and employees on the security of the bank's stock at the present time totals approximately \$3,900,000; that, as he is one of the officers having such a loan in the bank, he had requested the board of directors to appoint a special committee to reach a solution of the matter; that a committee of four directors was appointed for that purpose; and that although the committee had met several times, it has not yet reached a conclusion as to the plan which should be adopted. Mr. Leavell also stated that the officers and employees whose loans are secured by the bank's stock purchased in connection with such loans are unable to pay their indebtedness at the present time; that all of such loans have been charged off; and that all of the stock of the bank held in its own assets has been charged down to \$1.00; that to the extent that loans to certain of the directors included in the total of \$30,000,000 are secured by stock of the bank such loans have been or will be charged off; and that with the exception of these special cases, he was of the opinion that the remaining loans represented by the \$30,000,000 are ultimately collectible. He also stated that he felt that of the assets classified by the examiners as doubtful in the March 31 examination report approximately one-half of their value would be recovered, and that in the assets classified as slow there had been very good liquidation in an amount which he believed would total \$25,000,000 since April 1.

In response to an inquiry, Mr. Leavell stated that some years ago a syndicate of directors of the Continental Illinois Bank and Trust Company was formed for the purpose of purchasing the stock of the bank;

10/18/33

-10-

that the directors obtained funds for this purpose from the Continental Illinois Company, a subsidiary of the bank, the company in turn obtaining funds from the bank, and that approximately a year and a half ago, when the Continental Illinois Company was liquidated, the bank took into its assets the stock of the bank which had been pledged by the directors as security for their borrowings from the company.

With regard to the question of management, Mr. Leavell stated that he had recommended to the executive committee that the vacancy in the position of chairman of the board of directors of the bank be filled as soon as possible; that the committee is in harmony with that suggestion and feels that the position should be filled by the best and strongest man available; but that as yet no one has been selected for the position.

The question was then asked as to whether it would be practicable to require the present shareholders of the bank to subscribe for \$25,000,000 of additional common capital stock, and Mr. Leavell stated that the matter had not been officially discussed by the board of directors of the bank; that there are very few of the present shareholders who have any money; that he was of the opinion that it would be futile to attempt to raise additional capital at this time; and that such an attempt might result in loss of confidence in the bank and might affect adversely its present earning power. In connection with the latter point, Mr. Leavell stated that it is estimated that during the current year the bank will have a net operating profit of approximately \$7,000,000.

10/18/33

-11-

Mr. Leavell then withdrew from the meeting, and at the conclusion of the ensuing discussion Governor Black stated that he would revise the draft of letter to the Comptroller of the Currency in the light of Mr. Leavell's statements and the Board's discussion and present it for consideration at a meeting of the Board tomorrow.

Reference was then made to the application filed by the National Bank of America, Paterson, New Jersey, for permission to reduce its capital stock, action on which was deferred at the meeting of the Board yesterday, and Mr. Szymczak moved that the application be disapproved.

Carried, Mr. Hamlin and Mr. Miller voting "no".

Reports of Standing Committee dated October 18, 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>		
Farmers National Bank in Houlton, Houlton, Me.	72	72
<u>District No. 11.</u>		
First National Bank of Henrietta, Texas	36	36
	<u>Total</u>	<u>108</u>

Approved.

Thereupon the meeting adjourned.

Robert Morrell  
Secretary.

Approved:

E. R. Black  
Governor.