

A meeting of the Federal Reserve Board was held in Washington on Monday, November 6, 1933, at 3:00 p. m.

PRESENT: Mr. Black, Governor

Mr. Hamlin

Mr. Miller

Mr. James

Mr. Thomas

Mr. Szymczak

Mr. O'Connor

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

Governor Black referred to the letter addressed by the Board to the Reconstruction Finance Corporation under date of August 25, 1933, and to a memorandum prepared by Mr. Vest, Assistant Counsel, under date of October 30, 1933, following receipt of a memorandum dated October 27 from the Chairman of the Federal Deposit Insurance Corporation to Governor Black, with regard to the question whether the proceeds of capital notes or debentures issued by a State bank under provisions of State law and purchased by the Reconstruction Finance Corporation may be considered as capital by the Federal Reserve Board in determining whether such a bank has unimpaired capital sufficient to make it eligible for membership in the Federal Reserve System; Mr. Vest's memorandum taking the position that there is no adequate legal basis for reaching a conclusion different from that expressed in the Board's letter of August 25, 1933, that such notes or debentures may not be treated as a part of the capital of a State bank in determining whether it has the minimum unimpaired capital required by law for admission to membership in the Federal

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Reserve System.

Governor Black stated that he had been advised that a number of nonmember State banks have taken the position that if, for the purpose of determining their eligibility for membership in the Federal Reserve System, their capital cannot be considered as including capital notes or debentures issued to the Reconstruction Finance Corporation, there would be no purpose in their seeking to become stockholders of the Federal Deposit Insurance Corporation, and that it is feared that if such banks do not become stockholders of the Insurance Corporation they may fail, with very serious results to the banking situation in this country. Governor Black also advised that, at the request of Mr. Henry Bruere, a meeting had been held in Governor Black's office today, at which the directors of the Federal Deposit Insurance Corporation and its counsel, Mr. Jones of the Reconstruction Finance Corporation and counsel for that Corporation, and Mr. Bruere were present, when this whole matter was discussed with the idea of finding some solution of the problem. Governor Black stated that the representatives of the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation took the position that the capital notes and debentures issued to the Reconstruction Finance Corporation by State banks should be considered as capital for purposes of membership in the Federal Reserve System, and that he had advised Mr. Bruere and the representatives of the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation that he would take the matter up with the Federal Reserve Board.

A general discussion ensued, during which reference was made to

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the provisions of Title III of the Emergency Banking Act of March 9, 1933, as amended, with regard to the issuance of preferred stock by national banks and capital notes or debentures by State banks; to section 9 of the Federal Reserve Act, as amended, with regard to the capital stock required of State banks applying for membership in the Federal Reserve System and to section 303 of the Emergency Banking Act of March 9, 1933, which defines the term "capital" as used in provisions of law relating to national banks. Mr. Wyatt stated that he had carefully reconsidered this question and that, in his opinion, the conclusion set forth in the Board's letter of August 25, 1933, and Mr. Vest's memorandum of October 30, was correct. He reviewed the recent legislation from a historical standpoint, compared the pertinent provisions of law and called attention to the fact that he had dictated a new memorandum on the subject which he could have ready tomorrow morning. Some of the members of the Board suggested that any further action in the matter might be deferred until Mr. Wyatt could complete and the members of the Board could read his opinion on the subject; but Governor Black stated that Mr. Bruere had requested that, if possible, the Board reach a decision on the matter before five o'clock today.

At the conclusion of the discussion, Governor Black suggested that the Board might take any one of the following positions: (1) that capital notes or debentures issued to the Reconstruction Finance Corporation by State banks may not be considered as capital for the purpose of determining eligibility for membership in the Federal Reserve System, (2) that such notes or debentures cannot be considered as part of the

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capital of a bank applying for membership in the Federal Reserve System, but that the Board will ask Congress to amend the law to permit such notes or debentures to be considered as capital, or, (3) that the notes or debentures may be considered as capital for the purpose of determining eligibility of State banks for admission to membership, and that the Board will request Congress at the next session to support that position by amending the law to remove any doubt in the matter.

Mr. Miller then moved that Governor Black advise Mr. Bruere along substantially the following lines:

"Governor Black presented to the Board the question as to whether debentures or capital notes bought by the Reconstruction Finance Corporation from State banks might be considered as part of the capital funds of such banks under the provision of the Federal Reserve Act requiring State banks applying for membership in the Federal Reserve System to have an unimpaired capital equal to the capital required of national banks located in the same city.

"After discussion the Board reconsidered the matter and took the position that, while the question is not free from doubt, the Board believes that it was the purpose of the Congress in authorizing the purchase of debentures and capital notes by the Reconstruction Finance Corporation from State banks to provide capital funds for them, and, therefore, will consider the proceeds of such capital notes or debentures as capital funds of State banks and as part of the unimpaired capital required of such banks for admission of such banks to membership in the Federal Reserve System, and will request Congress upon convening to clarify this question by appropriate action."

Carried, and Governor Black left the room to advise Mr. Bruere orally of the action taken by the Board.

Upon Governor Black's return to the meeting, reference was made to the letter received from Mr. Harrison, Governor of the Federal Reserve Bank of New York, under date of October 19, 1933, with regard to his service as a director of the Bank for International Settlements, and

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Mr. James stated that he understood that Governor Harrison, not having heard from the Board in reply to his letter, was considering sending a representative to attend the meetings of the directors of the Bank for International Settlements, and that he felt action should be taken by the Board on the matter. Mr. Wyatt stated that he had not had an opportunity to prepare the written opinion requested at the meeting of the Board on October 25, 1933, with regard to whether the service of Mr. Harrison as a director of the Bank for International Settlements would be inconsistent with the provisions of the Federal Reserve Act, but that he was of the opinion that the Board could not effectively perform the duties imposed upon it by section 14(g) of the Federal Reserve Act if Mr. Harrison were serving as a director of the Bank for International Settlements.

At the conclusion of the ensuing discussion, Mr. Miller moved that Governor Harrison be requested to advise Mr. Fraser, President of the Bank for International Settlements, that he has consulted the Board, and finds that he is not in a position to accept appointment as a director of the Bank for International Settlements.

Action on Mr. Miller's motion was deferred for consideration at a meeting of the Board to be held tomorrow.

There was presented for the record a letter dated November 2, 1933, from Mr. Crane, Deputy Governor of the Federal Reserve Bank of New York, inclosing a copy of the following telegram sent to the Federal Reserve Bank of New York on October 26, 1933, by Mr. Jesse H. Jones, Chairman of the Reconstruction Finance Corporation, requesting that the bank act as the Corporation's fiscal agent in carrying out the distribution of an issue of the Corporation's notes, payment for which will be

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accepted only in newly-mined gold:

"This corporation with the concurrence of the Secretary of the Treasury has authorized an issue of fifty million dollars short-term notes payable without interest FEBY First Nineteen thirty four at the Treasury of the United States, Washington DC bearing the statement on their face that they are fully and unconditionally guaranteed by the United States STOP In accordance with the provisions of Section Seven of the Reconstruction Finance Corp'n Act you are requested to act as fiscal agent of this corporation in carrying out distribution of this issue STOP In payment for these notes this corporation will accept only newly mined gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof under regulations for consignment and tender prescribed by the Secretary of the Treasury which will be placed in your hands by the Secretary STOP The notes will be issued in odd amounts so as to equal the fixed value as of the day of tender of the gold taken in payment with adjustment for discount at one quarter per cent per annum based upon tables to be furnished you in circulars STOP The gold will be accepted in payment at rates of which you will be advised, fixed from time to time by this corporation with the approval of the Secretary of the Treasury STOP Obligations for delivery will be furnished you as promptly as possible STOP Circulars giving full instructions are now in preparation"

Noted.

The Board then considered and acted upon the following matters:

Telegraphic reply on November 1, 1933, approved by five members of the Board, to a telegram of the same date from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, stating that the board of directors of the bank, at its meeting on November 1, voted to establish a rediscount rate of 2 1/2% effective the first business day following that on which approved by the Federal Reserve Board, and that no other change was made in the bank's existing schedule of rates of discount and purchase. The reply stated that the Board approved for the Federal Reserve Bank of Boston a rediscount rate of 2 1/2%, effective November 2, 1933; it being understood that the new rate applied to rediscounts of eligible paper for member banks and advances to member banks under the provisions of sections 13 and 13(a) of the Federal Reserve Act, as

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amended.

Approved, and, there being no objection, the action of the directors of the Boston bank in making no other change in the bank's existing schedule of rates of discount and purchase was noted with approval.

Telegraphic reply, sent on November 2, 1933, with the approval of five members of the Board, to a telegram of the same date from Mr. Newton, Chairman of the Federal Reserve Bank of San Francisco, stating that, in order to bring the bank's rediscount rate more nearly into line with the current trend of money rates and in approximate conformity with the rates of other comparable Federal reserve banks, the board of directors of the bank, at its meeting on November 2, voted to establish a rediscount rate of 2 1/2% effective November 3, 1933. The reply stated that the Board approved for the Federal Reserve Bank of San Francisco a rediscount rate of 2 1/2%, effective November 3, 1933; it being understood that the new rate applied to rediscounts of eligible paper for member banks and advances to member banks under the provisions of sections 13 and 13(a) of the Federal Reserve Act, as amended.

Approved.

Letter dated November 2, 1933, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, stating that, at the meeting of the board of directors on that date, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Letter dated November 1, 1933, from Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, advising of the establishment by the

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executive committee of the bank, as of October 20, 1933, of the following schedule of effective buying rates on bankers' acceptances:

1 to 90 days	1/2%
91 to 120 days	3/4%
121 to 180 days	1%
Repurchase	1/2%

Without objection, noted with approval.

Memorandum dated October 28, 1933, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the Board approve a further extension of leave without pay for Miss Nora V. Elder, head of the drafting department of the Division of Research and Statistics, until such time as she may be able to resume her work, it being anticipated that she will be able to resume her duties about the first of the year. The recommendation was approved by five members of the Board on November 3, 1933.

Approved.

Memorandum dated October 30, 1933, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Miss Alice Elliott as a file clerk in the division, with salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her duties; the recommendation having been approved by six members of the Board on November 3, 1933.

Approved.

Memorandum dated November 1, 1933, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Mr. Laurence E. Skees and his designation as an assistant Federal reserve examiner, with salary at the rate of \$4,200 per annum.

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Mr. Skees was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board; and was designated an assistant Federal reserve examiner, with salary at the rate of \$4,200 per annum, all effective as of the date upon which he enters upon the performance of his duties.

Renewal bonds in the amounts of \$100,000 and \$50,000 executed on October 30 and 18, 1933, by Messrs. Richard L. Austin and Arthur E. Post, as Federal Reserve Agent and Assistant Federal Reserve Agent, respectively, at the Federal Reserve Bank of Philadelphia.

Approved.

Letter dated November 2, 1933, to Mr. Buss, Assistant Deputy Governor of the Federal Reserve Bank of Chicago, approved by five members of the Board, stating that, in accordance with the recommendation contained in his letter of October 17, the Board approves changes in the personnel classification plan of the bank and its Detroit branch to provide for an increase in the salary ranges of the position of "note teller-city" in the collection department and the position of "chief" in the investment department of the head office, and for the discontinuance of the position of "chief clerk and accountant" in the administrative department of the Detroit branch. The letter stated also that, as recommended in Mr. Buss' letter, the Board approves salaries at the rate of \$2,820 and \$2,700 per annum for Mr. P. Schiewe and Mr. G. Noer, respectively, adjusters in the check department, check adjustment division; the proposed salaries being above the maximum for the positions occupied.

Approved.

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Letter dated November 2, 1933, to Governor Calkins of the Federal Reserve Bank of San Francisco, 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 bank and its branches to provide for forty-two new positions, the discontinuance of twenty-two positions, increases in the maximum salary range of five positions, and a number of minor changes in titles of positions and departments, description of work and qualifications required.

Approved.

Reply on November 2, 1933, approved by six members of the Board, to a letter dated October 24 from Mr. Walsh, Federal Reserve Agent at Dallas, stating that the board of directors of the Federal Reserve Employees Savings & Investment Association, at a meeting held on October 23, 1933, unanimously voted to discontinue the operations of the association and to begin an orderly liquidation of its assets, by reason of the fact that the directors of the association did not feel that a satisfactory return could be made to the depositors with loans confined to officers and employees of the Federal Reserve Bank of Dallas and its branches. The reply stated that, in view of the fact such association was placed in liquidation on October 23, there appears to be no necessity for the agent to comply with the request contained in the Board's letter of September 30 that an opinion of counsel for the Federal reserve bank be obtained and furnished to the Board in regard to the question whether, under the laws of Texas, such an association may engage in the

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business of receiving deposits and of making loans generally, without authority from the State supervisory authorities, and without supervision and examination by them.

Approved.

Letter dated November 1, 1933, to the board of directors of the "Citizens State Bank", Pawnee City, Nebraska, 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 Kansas City 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.

Letters dated November 2, 1933, approved by five members of the Board, to the boards of directors of the following named State banks, each letter 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 Federal reserve bank stock 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:

<u>Applicant Bank</u>	<u>Federal Reserve Bank</u>
"Bank of Canton", Canton, Georgia.	Atlanta
"Personal Loan & Savings Bank", Chicago, Illinois.	Chicago
"Security State Bank of Cannon Falls", Cannon Falls, Minnesota.	Minneapolis.

Approved.

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Letters dated November 3, 1933, approved by five members of the Board, to the boards of directors of the following named State banks, each letter 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 Federal reserve bank stock 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:

<u>Applicant Bank</u>	<u>Federal Reserve Bank</u>
"The Massena Banking and Trust Company", Massena, New York.	New York
"The Tucker County Bank", Parsons, West Virginia.	Richmond

Approved.

Letters dated November 4, 1933, approved by six members of the Board, to the boards of directors of the following named State banks, each letter 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 Federal reserve bank stock 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:

<u>Applicant Bank</u>	<u>Federal Reserve Bank</u>
"The Farmers Bank of Bellville, Ohio", Bellville, Ohio.	Cleveland
"First State Bank of Libby", Libby, Montana.	Minneapolis

Approved.

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Reply on November 2, 1933, approved by five members of the Board, to a telegram dated October 19 from Mr. Stevens, Federal Reserve Agent at Chicago, in connection with the application of the "Central Trust & Savings Bank, Sterling", Sterling, Illinois, for membership in the Federal Reserve System. The reply stated that, in view of the impairment of the bank's capital by reason of its liability on the \$92,000 deferred certificate of deposit issued to the National Manufacturing Company, and in accordance with the agent's suggestion, the application for membership will be considered as having been withdrawn, but that, since the application itself, and the accompanying papers, are considered part of the permanent official files of the Board, they will be retained, although no adverse action thereon will be taken by the Board. The reply stated also that the Board will be pleased to consider a new application of the Central Trust & Savings Bank, Sterling for membership when, in the agent's opinion, the capital impairment has been corrected and the condition of the bank warrants the agent's favorable recommendation, and that, if a new application is submitted, it should be accompanied by a current report of examination, as the report of examination submitted in connection with the application which has been under consideration was made more than six months ago.

Approved.

Letter dated November 3, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by five members of the Board, replying to a letter dated October 25 from Assistant Federal Reserve Agent Young transmitting a request of the "Peoples Bank of Bloomington", Bloomington

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Illinois, for an extension of time from December 31, 1933, to January 31, 1934, within which to comply with condition of membership numbered nineteen, which provides that prior to December 31, 1933, the capital of the Peoples Bank of Bloomington be increased to at least \$200,000. The reply stated that, in view of the large surplus account, and in accordance with the recommendation of the agent's office, the Peoples Bank of Bloomington, Bloomington, Illinois, is granted an extension of time from December 31, 1933, to January 31, 1934, within which to comply with the condition of membership referred to.

Approved.

Telegram dated November 2, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by five members of the Board, referring to the application of the "St. Joseph Valley Bank", Elkhart, Indiana, 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 St. Joseph Valley Bank, the Federal Reserve Bank of Chicago is authorized to cancel such stock and make a refund thereon.

Approved.

Telegram dated November 4, 1933, to Mr. Wood, Federal Reserve Agent at St. Louis, approved by six members of the Board, referring to the application of the "Granite City Trust & Savings Bank", Granite City, Illinois, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the

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usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Granite City Trust & Savings Bank, the Federal Reserve Bank of St. Louis is authorized to cancel such stock and make a refund thereon.

Approved.

Telegram dated November 2, 1933, to Mr. Newton, Federal Reserve Agent at San Francisco, approved by five members of the Board, stating that the Board approves the application of the conservator of "The Lewiston National Bank", Lewiston, Idaho, for the cancelation of 90 shares of stock of the Federal Reserve Bank of San Francisco.

Approved.

Letter to Mr. Williams, Federal Reserve Agent at Cleveland, stating that the Board approves the application of the receiver of "The Lynch National Bank", Lynch, Kentucky, for the cancelation of 45 shares of stock of the Federal Reserve Bank of Cleveland, and revokes its approval, granted on March 14, 1933, of the application of The Lynch National Bank for the cancelation of 13 shares of Federal reserve bank stock.

Approved.

Telegraphic reply on November 3, 1933, approved by five members of the Board, to a telegram dated November 2 from Mr. Newton, Federal Reserve Agent at Atlanta, referring to the Board's approval on August 26, 1933, effective if and when the bank is authorized by the Comptroller of the Currency to commence business, of the application of the First

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National Bank in Tarpon Springs, Florida, for stock of the Federal Reserve Bank of Atlanta; stating that the Federal reserve bank has received a letter from Mr. J. C. McCrocklin, correspondent of the proposed bank, requesting the return of the \$1,650 payment on stock of the reserve bank and stating that he has withdrawn from the organization and the subscribers have asked him to return their money; and that the Board's instructions are requested. The reply stated that it is understood that the Comptroller's office is writing to the correspondent of the proposed First National Bank in Tarpon Springs, Florida, requesting information as to the present status of the organization plans; that upon receipt of further information from the Comptroller's office the agent will be advised; and that, in the meantime, it is suggested that the return of payment on the Federal reserve bank stock be withheld.

Approved.

Letter dated November 1, 1933, to Mr. Williams, Federal Reserve Agent at Cleveland, approved by six members of the Board, replying to a letter dated October 16 from Assistant Federal Reserve Agent Fletcher transmitting the request of the "Beaver County Trust Company", New Brighton, Pennsylvania, for permission to reduce its capital stock from \$400,000 to \$300,000 simultaneously increasing the surplus from \$250,000 to \$350,000. The reply stated that the Board has reviewed the information submitted and, in accordance with the recommendation of the agent's office, grants permission to the Beaver County Trust Company to reduce its capital stock from \$400,000 to \$300,000, provided the funds so released are credited to the surplus account of the bank and the

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transaction has the approval of the Pennsylvania Department of Banking. The reply also stated that the Board's approval is given with the understanding that the reduction in capital will be authorized by the stockholders in conformity with the laws of the State of Pennsylvania.

Approved.

Letter dated November 3, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, replying to Deputy Comptroller of the Currency Awalt's memorandum of October 13 recommending approval of a reduction in the capital stock of "The First National Bank & Trust Company of Saugerties", Saugerties, New York, from \$200,000 to \$100,000 in accordance with a plan of rehabilitation which also provides for the sale of \$100,000 preferred stock to the Reconstruction Finance Corporation; the released capital in the amount of \$100,000 to be used to eliminate losses of \$29,360.45 and depreciation in lower grade bonds of \$37,982.13 and to add \$32,657.42 to surplus and/or undivided profits. The reply stated that the Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply.

Approved.

Letter dated November 3, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by four members of the Board, replying to his memorandum of October 26 recommending approval of a reduction in the capital of "The Peoples National Bank and Trust Company of White Plains", White Plains, New York, from \$300,000 to \$150,000 in accordance with a plan of rehabilitation which provides also for the sale of \$50,000 new

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common stock and \$200,000 preferred stock and for the obtaining of a loan in the amount of \$250,000 by an affiliated company from the Reconstruction Finance Corporation to be secured by a first mortgage on the banking premises; the released capital in the amount of \$150,000, together with \$44,630.63 of the bank's surplus and undivided profits and funds in the amount of \$250,000 made available by the loan from the Reconstruction Finance Corporation, to be used to eliminate loans classed as doubtful and loss in the amount of \$92,369.10, depreciation in defaulted and lower grade bonds amounting to \$102,004.79, and estimated losses in other assets of \$256.74, and to reduce the bank's investment in the equity in its banking premises by \$250,000. The reply stated that the Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply.

Approved.

Letter dated November 3, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, replying to his memorandum of October 6 recommending approval of a reduction in the common capital of "The Jefferson County National Bank of Watertown", Watertown, New York, from \$500,000 to \$250,000 by reducing the par value of its stock from \$100 to \$50, and the immediate sale at par of \$500,000 of preferred stock, \$250,000 of such stock to be sold locally and \$250,000 to be sold to the Reconstruction Finance Corporation; the released capital in the amount of \$250,000, together with surplus, undivided profits and reserves of \$203,497, to be used to eliminate estimated losses and depreciation on securities investments of the lower grades,

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as classified in the report of the examination of such bank made by a national bank examiner as of July 15, 1933, totaling \$453,497. 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 it is noted that the stock of the Jefferson Securities Corporation is held by trustees in trust for the stockholders of the national bank; that the directors of the Corporation are all directors of the bank; that the Corporation is, therefore, an affiliate of the national bank within the meaning of the Banking Act of 1933; that it is also noted from the report of the examination of the bank that the national bank examiner feels that "this affiliate should be divorced from the bank"; and that, in view of the unsatisfactory condition of the Corporation, the Board feels that the connection between the bank and the Corporation should be severed as soon as it is feasible to do so. The reply stated further that, although the proposed recapitalization will make possible the elimination of a material amount of criticized assets and is a desirable step, the Board feels that the plan submitted is inadequate, and that, if the institution is to prosper, further substantial eliminations and corrections will be necessary; that there will remain in the assets of the bank, after the proposed adjustments are effected, loans and discounts classed as slow and doubtful in amounts of \$1,095,837 and \$314,964, respectively, \$81,985 of depreciation in securities investments of the higher grades, \$116,580 in other real estate owned, of which seven parcels appear to have been held longer than the statutory limit, an investment in banking house and furniture and fixtures

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of \$654,102, and other objectionable features; and that it is assumed that these matters are receiving the Comptroller's consideration.

Approved.

Letter dated November 1, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, replying to his memorandum of July 8, 1933, recommending approval of a reduction in the capital of "The First National Bank of Monroe", Monroe, Michigan, from \$200,000 to \$100,000 in accordance with a plan of reorganization which provides for the surrender of the present capital stock of \$200,000, the resale at par of \$100,000 of such surrendered stock, and a waiver by creditors of 50% of their net unsecured claims, such waivers to include a creditors' contribution to surplus in the amount of \$20,000; the released capital in the amount of \$200,000, together with the bank's surplus and undivided profits amounting to \$162,677.85, and funds in the amount of approximately \$1,006,893.81, made available by the waiver of 50% of unsecured liabilities, to be used to establish a surplus fund of \$20,000 and to eliminate unacceptable assets and depreciation in the amount of approximately \$1,250,133.77, such assets to be trusted for the benefit of waiving depositors. The reply stated that the records of the Board indicate that the national bank was authorized on December 29, 1925, to exercise full trust powers, but that it is understood that the bank will accept no new trust business and will proceed as promptly as possible to complete the surrender of its trust powers in the manner outlined in the Board's Regulation F, section XIV. The reply also stated that the Board approves the proposed reduction under the plan submitted,

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subject to the conditions set forth in the reply; that it is observed that the reorganized bank will show a ratio of capital and surplus to deposit liability of only 10%; that, while this appears adequate at the present time, any appreciable increase in deposits, which appears not unlikely in the case of this institution, would seem to necessitate consideration of a strengthening in its capital structure; and that the Board assumes that the matter has received the Comptroller's consideration. The reply stated further that it is observed that all dividends on the stock of the reorganized bank will be trusteeed for the benefit of waiving creditors until the \$20,000 contributed by them to surplus has been repaid; that it appears that the dividends to be paid on such stock will probably not be large, and that consequently no dividends will be received by the holders of such stock for a considerable length of time; that during that time, therefore, the stock will not have any market value based on dividends received from it; and that it is assumed that the Comptroller's office has given careful consideration to the question whether this circumstance will have an adverse effect upon the bank's ability to maintain the confidence of the community.

Approved.

Letter dated November 1, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, replying to his memorandum of October 11 recommending approval of a reduction in the capital of "The Caney Valley National Bank", Caney, Kansas, from \$50,000 to \$25,000 and the immediate increase of such capital to \$50,000 by the sale of \$25,000 of preferred stock to the Reconstruction Finance

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Corporation; the released capital in the amount of \$25,000 to be used to eliminate an equal amount of estimated losses, securities depreciation and doubtful assets as classified in the report of examination of the bank as of July 11, 1933. The reply stated that the Board approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply.

Approved.

Letter dated November 3, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, replying to his memorandum of October 26 recommending approval of a reduction in the capital of "The Alamo National Bank of San Antonio", San Antonio, Texas, from \$2,000,000 to \$500,000 in accordance with a plan of rehabilitation which provides for the use of the released capital funds, together with \$252,470 of the bank's surplus and undivided profits, in eliminating substandard assets, losses and depreciation, and to contribute \$100,000 to The Alamo National Company, a wholly owned affiliate, and for the sale of \$1,000,000 preferred stock to the Reconstruction Finance Corporation and the obtaining of an additional loan of \$500,000 from the Reconstruction Finance Corporation on the banking house, the latter amount to be used to reduce further the carrying value of the bank's equity in its banking house. The reply stated that it is noted that the plan contemplates that the Alamo National Company will be completely separated from the bank; that it is noted further that the Comptroller's memorandum is not intended as indicating his approval of the contribution of \$100,000 in cash to that company; and that, accordingly, the Board will

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not undertake to pass upon the propriety of that transaction, but, in accordance with the Comptroller's recommendation, approves the proposed reduction under the plan submitted, subject to the conditions set forth in the reply.

Approved.

Letter dated November 3, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, stating that the Board is informed that the Acting Attorney General of the United States under date of October 27, 1933, rendered an opinion with respect to the right of a national banking association located in the State of California, South Carolina or Tennessee to establish branch banks beyond the limits of the city, town or village in which the banking association is situated, and that the Board is desirous of publishing the text of this opinion in the Federal Reserve Bulletin; that it is understood that this opinion was rendered in response to letters from the Secretary of the Treasury which were written at the suggestion of the Comptroller's office; and that it will be appreciated therefore if the Comptroller will advise whether he knows of any reason why the opinion in question should not be published in the Federal Reserve Bulletin.

Approved, together with a letter dated November 3, 1933, to the Federal reserve agents at all Federal reserve banks, also approved by five members of the Board, inclosing for their information a copy of the opinion referred to.

Memorandum dated October 27, 1933, from Mr. Vest, Assistant Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to rulings which the Board has recently made on the

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following subjects: (1) application of section 8A of the Clayton Anti-trust Act to directors of Federal reserve banks and branches, (2) removal of branch from one town to another, and (3) interest on time deposits after maturity. The memorandum also recommended the publication in the next issue of the Bulletin of the forms of time certificates of deposit recently approved by the Board, together with an introductory statement in the form attached to the memorandum. The recommendations were approved by five members of the Board on November 3, 1933.

Approved.

Reply on November 2, 1933, approved by five members of the Board, to a memorandum dated October 4 from Honorable Walter J. Cummings, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the reply reading as follows:

"Reference is made to your communication of October 4, 1933, in which you present the question whether the provision of Section 19 of the Federal Reserve Act that 'no member bank shall pay any time deposit before its maturity' is applicable to deposits the time of payment of which has been deferred beyond the period contemplated at the time of making the deposit either by agreement with depositors, under authority of State law, or otherwise.

"The Federal Reserve Board has given careful consideration to this matter but does not feel that any general statement can be made which will be applicable to all cases of this kind which may arise. It is hoped, however, that the views which are expressed below may be of assistance in connection with any such questions which may be presented.

"It is understood that in some instances of deferment of the time of payment of deposits, they are made payable, not at any specified future date or after the expiration of any specified period, but at such time as it may be practicable in the circumstances of the case for the bank to meet the liability or at such time as the board of directors of the bank may deem it advisable. In cases of this kind, it is obvious that there is no definite maturity provided and, in the absence of a provision for notice before payment, it would appear that such deposits would not constitute time deposits which are subject to the prohibition upon payment before maturity.

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"On the other hand, the Board understands that there are cases in which deferred deposits are made payable at a certain specified date or at the expiration of a certain specified period. In instances of this kind, it may be that the deposits would constitute time deposits as defined in the Board's Regulation Q and, in this event, it would seem that they would be subject to the prohibition of the law upon the payment of time deposits by member banks before maturity. The language of the statute is explicit and prohibits the payment of any time deposit before maturity; and the Federal Reserve Board is not authorized to make any exception to this prohibition of the law. Accordingly, in cases in which the deposits are subject to such conditions that they constitute time deposits as defined in the law and in the Board's Regulation Q, there appears to be no legal basis on which they may be exempted from the prohibition upon the payment by member banks of time deposits before maturity. In this connection, it may be stated that deposits the payment of which has been deferred beyond the customary period by agreement with depositors have been treated as time deposits in the reports of condition of national and State member banks, in accordance with directions of the Comptroller of the Currency and the Federal Reserve Board.

"You also inquire whether in a case in which the deposits of a member bank have been divided into three groups and made payable after periods of one year, two years, and three years respectively, it would be lawful for the bank to accelerate the maturity or lift the restriction on the deposits deferred for one year without affecting the maturity of deposits in the other groups or whether it would be necessary in such a case for the bank to lift the restriction simultaneously as to all three groups of deposits. As indicated above, if the deposits constitute time deposits within the meaning of the law and of Regulation Q, they may not lawfully be paid by a member bank before maturity, which in the case described would appear to be at the end of one year, two years, and three years for the three groups respectively.

"The views above stated with respect to the application of the prohibition of the law to cases in which deferred deposits are made payable at a definite time appear to be in accord also with the practical considerations involved. If banks may accelerate the maturity of deposits, the time of payment of which has been deferred, and thus make such deposits eligible for insurance under the provisions of Section 12B of the Federal Reserve Act, it is probable that they would in many cases be subjected to strong pressure to make such deposits available for withdrawal merely in order that the deposits might have the benefits of insurance. Such action might be taken in some cases before it was justified by the condition of the assets of the institution and as a result its solvency might be jeopardized. It might happen also that a bank finding that it must necessarily close at an early date would make available for withdrawal deposits the time of payment of which has been deferred, in contemplation of such closing and in order that such deposits should be subject to the benefits of insurance on the date

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"of closing. It seems doubtful, therefore, whether an interpretation of the law under which the prohibition upon the payment of time deposits before maturity would be inapplicable in such cases, even if this were legally permissible, would be consistent with one of the purposes stated in the preamble to the Banking Act of 1933 'to provide for the safer and more effective use of the assets of banks'."

Approved.

Reply on November 2, 1933, approved by five members of the Board, to a letter dated October 12 from Mr. Hoxton, Federal Reserve Agent at Richmond; the reply reading as follows:

"Reference is made to your letter of October 12, 1933, with which you inclosed a copy of a letter received by you from the Peoples Trust Company of Martinsburg, West Virginia, relating to the plan of restriction of deposits adopted by that bank, and in which you refer to the fact that the Federal Deposit Insurance Corporation has requested the Federal Reserve Board to rule upon the question whether deposits in member banks the time of payment of which has been deferred beyond the period contemplated at the time of making the deposit are to be considered time deposits subject to the prohibition of the law upon the payment of such deposits before maturity.

"For your information in this connection, there is inclosed herewith a copy of the Board's letter replying to the request of the Federal Deposit Insurance Corporation for a ruling on this question. It is noted that you state that if the Peoples Trust Company of Martinsburg continues to operate under the Federal Deposit Insurance Corporation it will operate with only a small percentage of its deposits insured and it will be almost certain that, when the certificates of deposit mature, the holders thereof, knowing that these deposits are not insured, will withdraw them and either redeposit them in the bank as new and therefore insured deposits or deposit them in some other bank in which they would be insured; and you feel that it is more probable that the depositors would pursue the latter course. As the Board understands the letter which the Federal Deposit Insurance Corporation has sent to all State banking authorities on this subject, however, deposits the time of payment of which has been deferred will become insurable 'when the deferred period expires or the restriction is held inoperative as a matter of law or is lawfully eliminated.'"

Approved.

Reply on November 2, 1933, approved by five members of the Board,

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to a letter dated October 10 from Mr. Case, Federal Reserve Agent at New York, with respect to the application of the Hackensack Securities Company for a voting permit under section 5144 of the Revised Statutes as amended, and the possible status of the Peoples Trust and Guaranty Company as a holding company affiliate of eight named member banks. The reply stated that the trust company is a holding company affiliate within the definition of that term in section 2(c) of the Banking Act of 1933 if it owns or controls, directly or indirectly, such number of shares of a member bank as are specified in the definition or if it controls in some manner the election of a majority of the directors of any one bank; that in the agent's letter the eight member banks are referred to as subsidiaries of the Hackensack Securities Company and the stock of that company is said to be held for the benefit of the stockholders of the trust company; that if the trust company and its stockholders could be treated as a single organization it might be correct to say that such organization indirectly owns or controls the requisite number of shares of each of the eight member banks and controls the election of a majority of their respective directors; but that it would seem that the grouping of the trust company and its shareholders into a single organization is not justified and that the trust company must be considered an entity separate from the persons who own its stock. The reply stated also that the result of this conclusion is that, upon the facts given, the trust company does not fall within any of the categories enumerated in the definition in section 2(c) and is not a holding company affiliate of any of the eight member banks referred to, unless the trust company as

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distinguished from its stockholders owns more than 50% of the number of shares last voted for the election of directors of any one of such banks; and that the agent's letter does not expressly state that this is not the case although it shows that the trust company owns stock in only three of the eight member banks referred to and in each case owns so small a number of shares as to make such contingency highly improbable. The reply stated further that if the trust company is not a holding company affiliate the agent's question as to whether it should file an agreement on form P-5 with respect to the six State member banks which are referred to as subsidiaries of the Hackensack Securities Company must be answered in the negative and the agent's further question as to whether the trust company should file an application for a voting permit with respect to the eight member banks referred to above must also be answered in the negative.

Approved.

Telegram dated November 1, 1933, to Mr. Newton, Federal Reserve Agent at San Francisco, approved by six members of the Board, stating that the application of the Seaboard National Securities Corporation for a permit to vote the stock of the Seaboard National Bank of Los Angeles, California, has been received, and requesting that the agent notify Mr. George L. Browning, Los Angeles, California, who had protested against the granting of such a permit, that any statements he may desire to make with reference to the desirability of the Board's approving or withholding the permit should be submitted to the agent with three carbon copies on or before November 8, 1933. The telegram stated also that the

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original and two copies of any such statements should be forwarded by the agent to the Board, together with any further recommendation that he or the executive committee of the Federal reserve bank may wish to make.

Approved.

Reply on November 3, 1933, approved by five members of the Board, to a letter dated October 5 from Mr. McClure, Federal Reserve Agent at Kansas City, bringing to the Board's attention a number of instances wherein the reports submitted for affiliates of State member banks as of June 30, 1933, do not comply in all details with the instructions governing the preparation and publication of the reports. The reply stated that the Board appreciates the thoroughness with which the agent has had the reports of affiliates examined and his interest in having them comply fully with requirements; that the forms for reports of affiliates of member banks used on the June 30 call were prepared shortly after the approval, on June 16, of the law requiring such reports, and in the light of information then available regarding affiliates; that since that time many questions have arisen requiring interpretations of the law, as well as questions as to the most practical way to have reports prepared in the case of certain complicated types of affiliations; and that it has been decided to revise the report forms to be used at the time of the next call, and to amplify somewhat the instructions governing their preparation. The reply stated also that, if upon receipt and examination of the reports from all districts, it is felt that, in the light of the Board's rulings and interpretations

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of the law, particular reports for the Tenth Federal Reserve District should be republished in corrected form, or that additional information should be required, the Board shall so advise.

Approved.

Telegram dated November 3, 1933, to the Federal reserve agents at all Federal reserve banks, approved by five members of the Board, stating that the following is in answer to a number of inquiries received from Federal reserve banks regarding the Clayton Act:

(1) The words "shall make loans" in section 8A of the Clayton Act apply only to loans made after January 1, 1934, which is effective date of section, and not to transactions occurring prior to that date.

(2) The Board is authorized to issue permits covering the service by any one person of not more than three banking institutions coming within the provisions of the Clayton Act, including section 8A and a national bank director can, therefore, continue to serve after January 1, 1934, as a director of a Federal reserve bank or branch if he obtains a permit.

(3) As stated in X-7591, permits heretofore issued continue in force until revoked.

(4) Permits issued under the Clayton Act do not authorize relationships prohibited by section 32 of the Banking Act, and a separate permit must be obtained pursuant to Regulation R covering such service.

(5) As stated in section IV of Regulation L, the exceptions contained in section 8 of the Clayton Act, including those relating to the size and location of institutions, are not applicable to the provisions of section 8A, and, therefore, permits must be obtained covering service of institutions coming within the provisions of section 8A regardless of their size or location.

Approved.

Reply on November 1, 1933, approved by six members of the Board, to a letter dated October 12, from Mr. Elgin H. Lenhardt, Norristown, Pennsylvania, requesting advice as to whether it will be lawful after January 1, 1934, for Mr. Samuel Tabak and Mr. Lenhardt to serve at the same time as directors of the Bridgeport National Bank of Bridgeport,

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Pennsylvania, and of the Montgomery Trust Company of Norristown, Pennsylvania. The reply stated that apparently Mr. Lenhardt's question relates to the applicability in his particular cases of section 8A of the Clayton Antitrust Act as amended by section 33 of the Banking Act of 1933; that on January 26, 1926, the Board issued to Mr. Tabak a permit to serve the banks named above; that on February 17, 1927, a permit was issued to Mr. Lenhardt to serve the same institutions; and that such permits continue in force until revoked. The reply stated also that, while section 8A of the Clayton Antitrust Act as amended by section 33 of the Banking Act of 1933, forbids certain relationships which were not forbidden by the provisions of section 8 of the Clayton Antitrust Act, nevertheless permits heretofore issued covering services within the prohibitions of section 8 authorize the person to whom they were issued to serve the same banks, although such banks are now within the prohibitions of section 8A, as well as section 8; and that it will not be necessary, therefore, for Mr. Lenhardt or Mr. Tabak to obtain new permits covering the services described in their present permits.

Approved.

Reply on November 1, 1933, approved by six members of the Board, to a letter dated October 11 from Campbell, Wick, Houck, Thomas & Nixon, attorneys at law, Pittsburgh, Pennsylvania, stating that they represent the Carnegie Thrift and Loan Corporation, a small loans corporation, doing business in Pennsylvania, which makes a business of making loans on judgment notes, and requesting advice as to whether section 8A of the Clayton Antitrust Act as amended by section 33 of the Banking Act of 1933

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prohibits the service of directors of this corporation after January 1, 1934, as directors of national banks. The reply stated that the character of the judgment notes on which money is loaned by the corporation is not entirely clear from the information submitted; that, however, if such notes are merely ordinary promissory notes containing a provision confessing judgment for the amount of the note, it would not seem that they would constitute collateral of the kind referred to by the phrase "stock or bond collateral" in section 8A, since that phrase refers to what are commonly known as "securities"; that, of course, it is not impossible for promissory notes to constitute "securities", particularly if they are issued in a large series and are traded in on exchanges; but that it seems improbable that reference is being made to notes of this type. The reply stated also that the Board is authorized, under certain conditions, to issue permits covering relationships otherwise prohibited by the provisions of section 8A; that such authority, however, exists only where all of the institutions involved are "banks, banking associations, or trust companies"; and that, inasmuch as the Carnegie Thrift and Loan Corporation does not appear to be such an institution, the Board would have no authority to issue permits authorizing the service of its directors, as directors of a national bank.

Approved.

Reply on November 2, 1933, approved by five members of the Board, to a letter dated October 11 from Sherriff, Lindsay, Weis & Hutchinson, attorneys at law, Pittsburgh, Pennsylvania, stating that they represent the Pittsburgh Thrift Corporation, a small loans company organized under

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the laws of Pennsylvania, which makes loans of money on the security of judgments against real estate or stocks and bonds, and that, in view of the fact that only about 1% of such loans are secured by stocks and bonds, advice is requested as to whether the Corporation in question is subject to the provisions of section 8A of the Clayton Antitrust Act as amended by section 33 of the Banking Act of 1933. The reply stated that it is the opinion of the Board that the wording of that section would not appear to permit the making of any exception based on the size or number of loans made on stock or bond collateral; and that, accordingly, if the Pittsburgh Thrift Corporation shall make such loans after January 1, 1934, it will be unlawful for any of its directors, officers, or employees to serve at the same time as directors, officers, or employees of a national bank. The reply stated also that the Board is authorized by section 8 of the Clayton Antitrust Act to issue permits under certain conditions, covering relationships otherwise prohibited by any provision of the Clayton Antitrust Act, but that this authority exists only where the institutions involved are "banks, banking associations, or trust companies"; and that, therefore, unless the Pittsburgh Thrift Corporation is a bank, banking association, or trust company, the Board would have no authority to issue a permit for the service of its directors, officers, or employees as directors, officers, or employees of a national bank.

Approved.

Reply on November 2, 1933, approved by six members of the Board, to a letter dated October 14 from Mr. F. L. Ludwick, Cashier of the Peoples National Bank of East Brady, Pennsylvania, stating that Mr.

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Charles E. Andrews, Jr., of New Bethlehem, Pennsylvania, is a director of the national bank and also of not less than four other small banks, but that both Mr. Andrews and Mr. Ludwick take the view that his election as a director of the national bank at this time is not a violation of section 33 of the Banking Act of 1933, and requesting advice as to whether this assumption is correct and whether there is any probability that the section in question will be modified by executive order before its effective date, in so far as it affects small banks. The reply stated that section 8A of the Clayton Antitrust Act as amended by section 33 of the Banking Act of 1933 refers to all corporations, including banking institutions of whatever size, which shall make loans secured by stock or bond collateral; that only mutual savings banks and corporations which make such loans only to their own subsidiaries are excepted; and that, accordingly, this section prohibits the service after January 1, 1934, of a director of the national bank as a director of any other bank which shall make loans on stock or bond collateral. The reply stated also that the Board is authorized by section 8 of the Clayton Antitrust Act to issue permits covering relationships otherwise prohibited by any provision of the Clayton Antitrust Act, but that this authority is limited to the issuance of permits covering the service of not more than three banking institutions; that it will be necessary, therefore, if Mr. Andrews continues as a director of the Peoples National Bank of East Brady after January 1, 1934, for him to cease to be a director, officer, or employee of any other banks or corporations which make loans on stock or bond collateral, unless he has obtained a permit from the Board; and

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that such permit can only authorize him to serve two such other institutions. The reply stated further that no provision is made in the section in question for its modification by executive order, and that its modification by that method is, therefore, not to be anticipated.

Approved.

Reply on November 3, 1933, approved by five members of the Board, to a letter dated October 4 from Mr. E. B. Wilson, President of Edwin Bird Wilson, Incorporated, New York, New York, in regard to a "yardstick for measuring the soundness of a bank". The reply stated that there are so many factors that enter into the consideration of the condition of a bank that it is not believed practicable to devise a rule that could be applied uniformly; that, however, with respect to the relation of capital to deposits it is considered by the Board that a bank's unimpaired capital and surplus ordinarily should not be less than one-tenth of the aggregate amount of its deposit liabilities and in some instances should be more than one-tenth of such amount; that in arriving at a conclusion with respect to a particular bank a careful study is made of all available information, including the classification and diversification of the bank's assets, the distribution of its liabilities, the stability of its deposits, the record of its earnings and expenses, and the quality and past record of its management; and that, necessarily, in the light of such a study, the conclusion that may be reached must be the result of the exercise of one's best judgment, based upon all the circumstances of the case, and the Board is not aware of any precise formula which would cover all cases.

Approved.

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Reply on November 3, 1933, approved by five members of the Board, to a letter dated October 17 from Mr. Robert Emerson Minnich, Editor, Federal Bank Service, Prentice-Hall, Inc., New York, New York, regarding the rulings of the Board which appear in the Federal Reserve Bulletin and also regarding the many interpretations of the banking laws incorporated in letters sent by the Board to individual banks and bankers. The reply stated that the rulings published from time to time in the Bulletin are not merely digests of interpretations which were issued over the signature of the Board's Secretary, but usually contain the complete substance of such letters; that, furthermore, they include all of the interpretations which are believed to be of general interest and of such a character that they may appropriately be released to the general public; and that, in the circumstances, the Board does not feel that it should undertake to furnish to any private organization more information regarding its interpretations of the provisions of the Banking Act of 1933 than is made available to the general public through the medium of the Federal Reserve Bulletin.

Approved.

Reply on November 1, 1933, approved by five members of the Board, to a letter dated August 19 from Mr. William C. Wood, Cashier of The First National Bank, Geneva, Illinois; the reply reading as follows:

"Reference is made to your letter of August 19, 1933, addressed to the Comptroller of the Currency and referred to the Federal Reserve Board. I regret exceedingly that the pressure of other important matters arising under the Banking Act of June 16, 1933, has prevented an earlier reply.

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"You request, first, to be advised whether Mr. Ralph W. Davis, a director of your bank may lawfully serve after January 1, 1934, as a member of the firm of Paul H. Davis & Company of Chicago, stock-brokers. Such service appears to fall within the prohibitions of section 32 of the Banking Act of 1933. The Federal Reserve Board, however, is authorized under certain conditions to issue permits covering the relationships otherwise prohibited by this section. Forms and regulations in connection with the issuance of such permits have recently been adopted and may be obtained from the Federal Reserve Agent at the Federal Reserve Bank of your district, who will be in a position to advise you as to the necessity for obtaining permits in particular cases and as to the procedure to be followed in applying for such permits.

"You ask, in the second place, whether your bank may make loans to, extend credit to, and discount trade paper for, a partnership of which the president of your bank is a member and a corporation of which he is president. Apparently your question relates to the application of section 22(g) of the Federal Reserve Act, which prohibits member banks from making loans or extending credit in any manner to their own executive officers. The law provides a penalty of fine or imprisonment for violations of this section and the determination of the question whether persons should be prosecuted for such violations is a matter entirely within the jurisdiction of the Department of Justice. The Federal Reserve Board is not specifically authorized to prescribe regulations on this subject; and, in the circumstances, an expression of opinion by the Federal Reserve Board on the question what is to be considered a loan to an executive officer would not afford protection from criminal prosecution if the Department of Justice upon consideration of the matter should take the position that such a loan was within the statute and should feel it necessary to prosecute for violation of this provision. Accordingly, the Federal Reserve Board does not feel that it would be appropriate for it to undertake to express opinions upon questions of this kind.

"Your third question, relating to the right of national banks to buy or acquire notes of the Federal Home Loan Corporation, has been referred to the Comptroller of the Currency for his consideration and reply.

"Finally, you request to be advised whether Mr. M. A. Joshel, president of your bank, may lawfully continue to serve at the same time as a director of the Geneva Building and Loan Association. It is the opinion of the Federal Reserve Board that such associations are not 'engaged primarily in the business of purchasing, selling, or negotiating securities,' and that they are therefore not subject to the provisions of section 32 of the Banking Act of 1933. The Board is also of the opinion that the loans made by a building and loan association to its shareholders on the security of stock of the association, as a part of the general plan under which such associations usually operate, are not the type of loans 'secured by stock or bond collateral' referred to in section 8A of the Clayton Antitrust

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"Act. Accordingly, these sections will not prohibit Mr. Joshel from serving after January 1, 1934, as president and director of your bank and as a director of such a building and loan association, provided it makes no other loans secured by stock or bond collateral."

Approved.

Reply on November 2, 1933, approved by five members of the Board, to a letter dated July 5 from Mr. Siegfried Stern, Vice President of The Chase National Bank, New York, New York; the reply reading as follows:

"Reference is made to your letter of July 5, 1933, in which you state that your bank's branches in London, Havana, Cristobal and Panama accept accounts and act as correspondents for corporations and partnerships engaged primarily in the business of purchasing, selling or negotiating securities, and that such branches, at the request of such clients, direct to you orders for the purchase and sale of securities in this country. You inquire whether the provisions of Section 32 of the Banking Act of 1933 prohibit such functions. You comment that your branches are in competition with other institutions located in those cities which extend similar facilities to their clients.

"Section 32 contains no exception applicable to foreign branches of national banks. It is true, as you say, that other institutions located in the cities in which your branches are located extend such facilities to their clients and will not be prevented from so doing by the provisions of the Banking Act of 1933. The same, however, is true of banking institutions in this country which are not member banks of the Federal Reserve System, since such banks are not affected by that section. Furthermore, since the section in question is concerned with the effect which certain types of relationships may have upon member banks, the fact that the dealers in securities are located in foreign cities would not seem to have any conclusive bearing upon the applicability of the section to relationships with them.

"However, it is not entirely clear from your letter whether the relationships to which you refer are such as to make your bank and its branches a correspondent bank within the meaning of Section 32.

"The Federal Reserve Board is authorized, under certain conditions, to grant permits covering relationships otherwise prohibited by this section. The Federal Reserve Board has recently issued its Regulation R in this connection and a mimeographed copy is inclosed for your information. Your particular attention is directed to the definition of the term 'correspondent bank' in Section II of the inclosed Regulation.

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"In the event that you feel that a permit may be necessary, it is suggested that you consult with the Federal Reserve Agent at the Federal Reserve Bank of New York, who will be in a position to advise you further as to the necessity for obtaining permits and as to the procedure to be followed in applying for such permits."

Approved.

Reports of Standing Committee dated November 2, 3, 4, and 6, 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>		
Claremont National Bank, Claremont, New Hampshire	75	75
<u>District No. 2.</u>		
The National Bank of Florida, Florida, New York	36	
Orange First National Bank of Orange, New Jersey	<u>216</u>	252
<u>District No. 4.</u>		
National Bank of Portsmouth, Portsmouth, Ohio	144	144
<u>District No. 6.</u>		
Mercantile Bank and Trust Company, Miami Beach, Florida	90	90
<u>District No. 7.</u>		
The National Bank of Canton, Canton, Illinois	75	75
	<u>Total</u>	<u>636</u>

<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 4.</u>		
First National Bank, Lowell, Ohio (Voluntary liquidation, absorbed by Peoples Banking & Trust Company, Marietta, Ohio, nonmember)	90	
First National Bank, Oak Harbor, Ohio (Insolvent)	60	
Farmers National Bank, Freeport, Pennsylvania (Being liquidated through conservator)	<u>60</u>	210
<u>District No. 5.</u>		
Central National Bank, Spartanburg, South Carolina (Insolvent)	360	360

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<u>Applications for SURRENDER of Stock: (Continued)</u>		<u>Shares</u>	
<u>District No. 7.</u>			
First National Bank, Mapleton, Iowa			
(Voluntary liquidation, absorbed by First State Bank, Mapleton, Iowa, nonmember)		36	
First National Bank, Oregon, Wisconsin			
(Insolvent)		<u>18</u>	54
<u>District No. 8.</u>			
Peoples American National Bank, Princeton, Indiana			
(Insolvent)		120	120
		<u>Total</u>	<u>744</u>

Approved.

Thereupon the meeting adjourned.

O. Ester Morill
Secretary.

Approved:

E. R. Blach
Governor.