

A meeting of the Federal Reserve Board was held in Washington on Wednesday, December 6, 1933, at 12:00 noon.

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. Paulger, Chief of the Division of  
Examinations

Mr. Wyatt, General Counsel

Mr. Wingfield, Assistant Counsel

Governor Black referred to the action taken at the meeting of the Board on November 28, 1933, with regard to the proposed plans for the reorganization of the Equitable Trust Company and the Guarantee Trust Company, member banks in Atlantic City, New Jersey, and stated that representatives of the two institutions had called on him and requested a hearing before the Board on the matter. In this connection, Mr. Morrill stated that the letter to Mr. Austin, Federal Reserve Agent at Philadelphia, prepared by him in accordance with the action taken by the Board at its meeting on November 28 had not yet been approved by all of the members of the Board.

After discussion, the Governor was requested to advise the representatives of the two institutions that the Board will be glad to grant them a hearing on Tuesday, December 12, 1933, at 10:00 a. m., and it was understood that the letter to Mr. Austin, prepared by Mr. Morrill, would be held pending the outcome of the hearing.

Governor Black stated that late yesterday afternoon Mr. Albert

12/6/33

-2-

A. Sprague of Chicago called on the telephone and informed him that Mr. George A. Ranney had advised the committee of the board of directors of the Continental Illinois National Bank and Trust Company, Chicago, Illinois, which had tendered to Mr. Ranney appointment as chairman of the board of directors of the national bank, that information had reached him that the Reconstruction Finance Corporation was not favorable to his appointment to the position and that therefore any further conference by Mr. Ranney with the committee in regard to the matter would be useless.

Mr. Sprague also advised, Governor Black stated, that the national bank was losing between \$4,000,000 and \$5,000,000 a day in deposits. (Figures as to deposits of the bank received and read by Governor Black during the meeting showed that the bank had lost a net of \$39,000,000 of deposits from October 25 to December 5, 1933, both dates inclusive; that on December 1, 2, and 3, the bank's deposits decreased \$5,000,000, \$6,000,000, and \$3,000,000, respectively; and that on December 5 its deposits increased \$8,000,000.) Governor Black said that, following his conversation with Mr. Sprague, he had endeavored to get in touch with Mr. Leavell, president of the bank, in order to ascertain from him the exact situation with regard to the bank; that Mr. Leavell was not in Chicago, and he had been unable to reach him; but that as soon as definite information is received from Mr. Leavell he will confer further with the other members of the Board as to what action should be taken in the event a serious situation develops as regards the bank. Governor Black said that he was bringing the loss in deposits to the attention



12/6/33

-3-

of the Board for the purpose of informing the Board as to the situation at this time confronting the bank and not in relation to the proposed appointment of Mr. Ranney.

Governor Black then presented the following draft of reply to Mr. Sprague's letter of November 21, 1933, prepared in accordance with the action taken at the meeting of the Board on December 4, 1933:

"Upon my return from a holiday trip to Atlanta I presented to the Board your letter of November 21st, in which you advised that the Board of Directors of the Continental Illinois National Bank and Trust Company had formally tendered the chairmanship of that bank to Mr. George A. Ranney, of Chicago, and in which you state that Mr. Ranney had asked you to ascertain whether 'his selection meets with the full approval of the Federal Reserve Board or if they have any person in mind who would be more acceptable to them.'

"We assume that both Mr. Ranney and your directors have made this inquiry because of the opinion expressed by the Board that the difficulties and problems of the Continental Illinois National Bank clearly indicate in its judgment the necessity of an improvement in the management of that bank.

"The Board appreciates the great confidence you and Mr. Ranney are showing in our interest and judgment in seeking our opinion with respect to the position of Chairman of your Board and the courtesy that has been shown us in the inquiry made.

"In response to the last part of your inquiry, to wit: whether the Board has any person in mind who would be more acceptable to them, I beg to advise that Mr. Ranney, your directors and yourself are doubtless aware that there is nothing in the law governing the conduct of your bank which requires the approval by the Federal Reserve Board of men who are selected to manage the institution. I may add that the Board has no desire to assume for itself or to arrogate to itself any such right. While the Board is profoundly interested in the good management of the banks of the country, and especially of those that have membership in the Federal Reserve System, it feels keenly that the responsibility of securing such good management rests primarily with the Board of Directors of the bank; that it is their responsibility and a responsibility which entails the duty of securing such management. The Federal Reserve Board would be reluctant to do anything or to express any opinion that might in any degree weaken that sense of responsibility.

"I say this thus frankly and fully in order that both you and Mr. Ranney may understand why the Board could not consistently with this point of view, and therefore should not, undertake to indicate to the directors of any bank whom they should appoint in their

12/6/33

-4-

"management or to express any preference in reference to the personnel involved in the management.

"On the other hand the Board considers it entirely proper in aid of any bank to express, upon request of its directors, an opinion as to the fitness of a proposed officer, and I may now therefore state with reference to the first part of your inquiry, to wit: 'whether Mr. Ranney's selection meets with the full approval of the Federal Reserve Board,' that those members of the Board who know Mr. Ranney personally or by reputation have the highest regard both for his character and his ability and feel that he is fully qualified for the position offered, and the Board is glad to give this expression in response to your specific request for an opinion."

Mr. James moved that the letter be sent to Mr. Sprague immediately.

Carried, Messrs. Hamlin, Szymczak and O'Connor voting "no".

Mr. Hamlin stated that he had voted "no" for the reason that he felt that the Board should not interfere either directly or indirectly with the selection of the management of the bank, which he felt it would do by sending the letter.

Mr. Szymczak stated that as the Board's original letter suggesting that the management of the national bank be strengthened was sent to the Comptroller of the Currency and a copy was presented by Governor Black to Mr. Simpson, Deputy Chairman of the Federal Reserve Bank of Chicago and by the latter read to the executive committee of the national bank, he felt that the Board should remain in the background until the Reconstruction Finance Corporation and the Comptroller of the Currency had expressed an opinion as to the proposed management of the bank, when, in response to any inquiry from the directors of the bank, the Board could properly express an opinion with regard to any individual, and that for that reason he had voted "no" on Mr. James' motion.

Mr. O'Connor stated that he had voted "no" for the reason expressed by Mr. Hamlin and because he did not know Mr. Ranney and had not had an opportunity to make any investigation with regard to him.

(Secretary's note: On Thursday morning, December 7, Mr. Szymczak communicated with Mr. Leavell, President of the Continental Illinois Bank and Trust Company, by telephone, who advised that the bank's deposits had been decreasing slightly over a considerable period of time; that



12/6/33

-5-

in the last six or eight weeks the bank's public deposits had decreased approximately \$25,000,000, which resulted in most of the decrease during the recent period; that \$12,000,000 of the decrease in public deposits was in the bank's war loan account, and the balance in city and county funds; that it was expected that deposits of public funds would be increased in the near future, and that, while there had been a seepage of deposits for months past, there was nothing particularly alarming in recent days.)

Governor Black stated that Mr. Frank A. Thompson of counsel for the Mercantile Commerce Bank and Trust Company of St. Louis, called on him in November with regard to the holding by that bank of the capital stock of the Mercantile Commerce National Bank in St. Louis, and under date of November 15, 1933, addressed a letter to him requesting a hearing before the Board on the matter sometime after November 30. Governor Black also stated that, because of certain statements contained in Mr. Thompson's letter in connection with the discussion between Mr. Roy A. Young, former Governor of the Board, and Mr. John Lonsdale, then President of the Mercantile Commerce Bank and Trust Company, with regard to the establishment of the Mercantile Commerce National Bank, he had sent a copy of the letter to Governor Young at Boston, with the request that he advise exactly what occurred between him and Mr. Lonsdale and that Governor Young's reply dated December 4, 1933, had just been received.

Mr. James stated that Mr. W. L. Hemingway, President of the Mercantile Commerce Bank and Trust Company, had called on him this morning, and at a conference at which Messrs. Morrill, Wyatt and Wingfield were also present, the question of the holding of the stock of the national bank by the Mercantile Commerce Bank and Trust Company and the Board's action with regard thereto were discussed in detail; that

12/6/33

-6-

it appeared from the discussion that there had been a considerable misunderstanding on the part of the officers and directors of the bank regarding the matter; and that Mr. Hemingway had requested that, in order that he may be in a position to review the matter accurately with his board of directors at its meeting on December 8, 1933, he be given an opportunity to see the portion of the minutes of the meeting of the Federal Reserve Board held on August 12, 1931, containing statements by Governor Young and Mr. Lonsdale with regard to their discussion in April, 1930, of the proposed establishment of the Mercantile Commerce National Bank.

After discussion, Mr. James was authorized to show to Mr. Hemingway the portion of the minutes of the meeting of the Board on August 12, 1931, referred to by him.

Governor Black was also authorized to advise Mr. Thompson, of counsel for the Mercantile Commerce Bank and Trust Company, that if, after the matter is discussed at the meeting of the directors of the bank on December 8, a hearing on the matter is desired, the Board will be glad to grant such a hearing on Tuesday, December 12, 1933.

Mr. James read a letter received by him under date of November 27, 1933, from Mr. Paul Dillard inquiring whether his service at the same time as a class C director of the Federal Reserve Bank of St. Louis, and as President of Dillard and Coffin Company which is primarily engaged in the handling of cotton on consignment, the financing of cotton in process of being marketed, the making of production loans, and the operation of farm land owned by the corporation, and which at times makes loans upon the security of stocks and bonds and at the present time has two such loans outstanding, comes within the provisions of Section 8A of the Clayton Antitrust Act. Mr. James said that he had



12/6/33

-7-

taken the matter up with Mr. Wyatt, and he read a draft of reply to Mr. Dillard's letter prepared by Mr. Wyatt, stating that there seems to be no escape from the conclusion that the statute will apply to the service of Mr. Dillard in the capacities stated if Dillard and Coffin Company makes loans secured by stock or bond collateral after January 1, 1934. Mr. James also stated that if the provisions of Section 8A are to have such a broad application, it would render ineligible for service as directors of Federal reserve banks and their branches a number of persons now serving in such capacities.

He then moved that the Board recommend to Congress that Section 8A of the Clayton Act be amended as soon as possible so as not to apply to cases comparable to that of Mr. Dillard.

A discussion ensued, at the conclusion of which Mr. James' motion was put by the chair and carried, and Counsel was requested to prepare, for the consideration of the Board, drafts of letters to the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives, in accordance therewith.

It was also suggested that further consideration be given to the proposed reply to Mr. Dillard's letter in the light of the discussion.

Mr. Morrill then referred to the action taken at the meeting of the Board on November 15, 1933, in authorizing the sending to all Federal reserve banks of copies of the memorandum prepared by the Board's Division of Bank Operations under date of October 23, 1933, with regard to branch banking, and he stated that Mr. Austin, Federal Reserve Agent at Philadelphia, called him on the telephone yesterday and advised that certain parties in Pennsylvania are contemplating the drafting of legislation relating to branch banking in that State, and that he would like

12/6/33

-8-

to furnish them with a copy of the memorandum. Mr. Morrill also stated that he had advised Mr. Austin that he would present his request to the Federal Reserve Board, and he called attention to the fact that while an article had been prepared, on the basis of the memorandum, for publication in the Federal Reserve Bulletin, the Legal Division had not had an opportunity to check it and it would not be printed in the forthcoming issue of the Bulletin.

Mr. James moved that the Secretary be requested to advise Mr. Austin that as the report was in its nature supplementary to the information contained in the report of the Committee on Branch, Group and Chain Banking which had not been published by the Board, the memorandum itself had not been published by the Board, and it had been sent to the agent and the governor of the bank solely for their information, it should be so treated.

Carried.

Mr. Miller then moved that the article prepared on the basis of the information contained in the memorandum referred to for publication in the Federal Reserve Bulletin be not published.

Carried.

There was then presented a telegram received by Governor Black under date of December 4, 1933, from Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, stating that while he hoped and expected to be able to return to his office at an earlier date, he requested, (1) a leave of absence for ninety days, and, (2) that, on account of conditions, the Board confirm his appointment of Mr. William A. Day, deputy governor of the bank, as acting assistant Federal reserve agent during his absence in order that the heavy pressure of activities be promptly handled.



12/6/33

-9-

After a brief discussion, during which reference was made to the policy of the Board of requiring acting assistant Federal reserve agents to be entirely independent of the operating department of the bank and responsible solely to the Federal reserve agent, Mr. Newton's telegram was referred to the Committee on District No. 12 for recommendation to the Board.

The minutes of the meetings of the Federal Reserve Board held on November 11 and 15, 1933, were approved.

The Board then considered and acted upon the following matters:

Telegrams dated December 6, 1933, from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, both advising that, at meetings of the boards of directors today, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Letter dated December 4, 1933, to the board of directors of "The Bridgeport-City Trust Company", Bridgeport, Connecticut, approved by five members of the Board, stating that, subject to the conditions prescribed in the letter, the Board approves the institution's application for membership in the Federal Reserve System and for the number of shares of stock of the Federal Reserve Bank of New York to which the institution will be entitled upon the basis of its capital and surplus as of the date upon which its membership becomes effective.

Approved.

Letter dated December 4, 1933, to the board of directors of the "Monterey County Trust & Savings Bank", Salinas, California, approved by five members of the Board, stating that, subject to the

12/6/33

-10-

conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for stock in the Federal Reserve Bank of San Francisco, effective if and when the Comptroller of the Currency has approved the establishment and operation of the bank's branches at Carmel, Castroville and Monterey, California, all of which were established subsequent to February 25, 1927.

Approved, together with a letter dated December 4, 1933, to Mr. O'Connor, Comptroller of the Currency, also approved by five members of the Board, requesting that he advise the Board if he approves of the establishment and operation of the branches of the Monterey Trust Company established subsequent to February 25, 1927, in the event the bank accomplishes its admission to membership.

Letters dated December 5, 1933, approved by six members of the Board, to the boards of directors of the following named State banking institutions, each letter stating that, subject to the conditions prescribed in the letter, the Board approves the institution's application for membership in the Federal Reserve System and for the number of shares of Federal reserve bank stock to which the institution 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>
"Ossining Trust Company", Ossining, New York.	New York
"Citizens State Bank & Trust Company", Goose Creek, Texas.	Dallas

Approved.

Telegram dated December 5, 1933, to Mr. Stevens, Federal Reserve



12/6/33

-11-

Agent at Chicago, approved by six members of the Board, referring to the application of the "Iowa State Savings Bank of Fairfield", Fairfield, Iowa, 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 Iowa State Savings Bank of Fairfield, the Federal Reserve Bank of Chicago is authorized to cancel such stock and make a refund thereon.

Approved.

Telegram dated December 5, 1933, to Mr. Williams, Federal Reserve Agent at Cleveland, prepared in accordance with the action taken at the meeting on December 4, 1933, and approved by six members of the Board, reading as follows:

"Referring Board's letter November 24, 1933, regarding proposed merger of Dollar Savings and Trust Company of Wheeling, West Virginia, (nonmember bank) into Wheeling Bank and Trust Company of that city (member bank) under charter of latter institution, Board upon your request over telephone has reconsidered its objection to acquisition by member bank of corporate stocks from Dollar Savings and Trust Company through proposed merger and in view of all circumstances involved, withdraws its objection to such acquisition. However, as indicated by one of standard conditions of membership prescribed by Board, which prohibits purchase of stock by member banks, Board feels that stocks are not suitable for investment of funds of commercial banking institutions, and that stocks acquired by member bank from Dollar Savings and Trust Company as a result of proposed merger referred to above should be disposed of as soon as it is feasible, and it is understood that you feel that this can probably be accomplished within period of one year after merger is effected."

Approved.

Letter dated December 4, 1933, to Mr. Hoxton, Federal Reserve

12/6/33

-12-

Agent at Richmond, approved by five members of the Board, reading as follows:

"The Board has received a letter dated November 14, 1933, from Mr. T. N. Spencer, Executive Vice President of the 'Citizens Bank and Trust Company', Concord, North Carolina, a copy of which was sent to Mr. Fry, requesting the Board to waive condition numbered twenty-two which reads as follows:

'Within six months from the date of its admission to membership such bank shall require that the offices of the Building and Loan Association now located in the banking quarters of such bank be removed therefrom.'

"On November 16, 1933, a member of the Board's Division of Examinations discussed this letter with Mr. Fry and requested that a recommendation in the matter be forwarded by the Executive Committee of the Reserve Bank. On November 17, 1933, the Citizens Bank and Trust Company became a member of the System, the board of directors having adopted a resolution on the previous day accepting the conditions of membership.

"In telephone conversation November 28, 1933, Mr. Fry stated that no recommendation regarding the request for a modification of conditions of membership had been forwarded by the Executive Committee of the Reserve Bank inasmuch as it was believed that the action of the directors in accepting the conditions of membership superseded the previous request of an officer of the bank for modification of one of the conditions. However, it will be observed that the condition which the bank wished to have modified need not be complied with until six months after the bank has been admitted to membership.

"Unless the Executive Committee of the Reserve Bank wishes to recommend that the Board grant the request for a modification of the condition, it is suggested, in order that there may be no misapprehension, that you advise the bank that it is the understanding that the conditions have been accepted without modification as set forth in the Board's letter dated November 10, 1933, and that the office of the Building and Loan Association will accordingly be removed from the banking quarters of the Citizens Bank and Trust Company before May 17, 1934.

"In this connection, it has been noted that the resolution adopted by the board of directors of the bank on November 16, 1933, accepting the conditions of membership, and which has been approved by Counsel for the Federal Reserve Bank, reads in part as follows:

**'RESOLVED,** That the Board of Directors of the Citizens Bank and Trust Company, Concord, N. C., accept the conditions of membership in the Federal Reserve System as set forth in their letter of November 13, 1933.'

"The Board's letter approving the application and setting forth the conditions of membership was dated November 10, 1933. In order



12/6/33

-13-

"that the record be correct, it is suggested that you request the directors of the Citizens Bank and Trust Company to amend the resolution so as to make proper reference to the letter containing the conditions of membership and that you forward to the Board a certified copy of such amendment."

Approved.

Letter dated December 5, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by six members of the Board, reading as follows:

"In accordance with the recommendation of Acting Comptroller Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The Bendersville National Bank', Bendersville, Pennsylvania, from \$50,000 to \$25,000, pursuant to a plan of rehabilitation which provides that the bank's capital shall be increased by the sale at par of \$25,000 par value preferred stock. It is understood from the file accompanying Mr. Awalt's memorandum of November 21, 1933, that the funds released by the reduction in common capital stock are to be used either to increase the bank's surplus in the amount of \$25,000, or to eliminate an equal amount of securities depreciation."

Approved.

Letter dated December 4, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by six members of the Board, reading as follows:

"On October 10, 1933, you were advised that the Federal Reserve Board had deferred action upon the application of 'The First National Bank of Bradenton', Bradenton, Florida, for permission to reduce its capital under a plan which involved the acquisition of a majority of its stock by the First National Company, until it was in a position to determine whether it could properly grant a voting permit to such company.

"The application of the First National Company for a holding company affiliate voting permit has since been received and given favorable consideration by the Board. Therefore, in accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the First National Bank of Bradenton, Bradenton, Florida, from \$150,000 to \$50,000 pursuant to a plan of rehabilitation which provides that the bank's capital shall be increased by the sale at par of \$150,000 par value preferred stock and \$50,000 par value new common stock at par, and that the funds released by the reduction in common capital

12/6/33

-14-

"stock shall be used to eliminate sub-standard assets and depreciation in the amount of approximately \$82,000 and to increase the surplus fund in the amount of \$18,000, all as set forth in your memorandum dated September 13, 1933.

"It is understood that provision has been or will be made in the articles of association of the bank that no preferred stock shall be called or purchased for retirement unless the then unimpaired capital, surplus, and undivided profits of the bank, and the retirement funds provided for the retirement of such preferred stock (after giving effect to the issuance of any stock issued to provide funds for such retirement) exceed \$261,000 by an amount at least equal to the sum necessary to effect such retirement, or unless such retirement shall have been approved by the Comptroller of the Currency."

Approved.

Letter dated December 4, 1933, to the "First National Company of Bradenton", Bradenton, Florida, approved by five members of the Board, reading as follows:

"The Board has considered your application dated October 23, 1933, for a voting permit under authority of Section 5144 of the Revised Statutes, as amended, entitling you to vote stock of 'The First National Bank of Bradenton', Bradenton, Florida, owned or controlled by you.

"The Board approves your application as filed upon the condition that prior to the issue of the voting permit there shall be delivered to the Federal Reserve Agent at Atlanta three original counterparts of an agreement in the form attached hereto marked Exhibit A, duly executed on your behalf by John T. Campbell, President, and C. A. Brooks, Secretary, the officers designated in the resolution of authorization constituting Exhibit C of your application.

"A copy of this letter has been forwarded to the Federal Reserve Agent at Atlanta with instructions to notify the Board by telegram as soon as the foregoing condition has been complied with to his satisfaction. Upon such notification the Board will issue to you the voting permit applied for."

Approved.

Letter dated December 4, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, reading as follows:

"In accordance with the recommendation of Acting Comptroller Awalt, the Federal Reserve Board approves a reduction in the common



12/6/33

-15-

"capital stock of 'The First National Bank of Dodgeville', Dodgeville, Wisconsin, from \$100,000 to \$50,000, pursuant to a plan of rehabilitation which provides that the bank's capital shall be increased by the sale at par of \$50,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock, together with \$25,000 of the surplus fund, shall be used to eliminate substandard assets in the amount of \$75,000, all as set forth in Mr. Awalt's memorandum of November 21, 1933."

Approved.

Letter dated December 4, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, reading as follows:

"In accordance with the recommendation of Acting Comptroller Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The American National Bank of Sidney', Sidney, Nebraska, from \$50,000 to \$25,000, subject to the conditions set forth in Mr. Awalt's memorandum of November 16, 1933, which provide that the bank's capital shall be increased by the sale at par of \$40,000 par value preferred stock to the Reconstruction Finance Corporation; that the \$25,000 of funds released by the reduction in common capital stock shall be used, together with approximately \$2,000 from the bank's present undivided profits, in eliminating substandard assets and depreciation in the amount of approximately \$27,000; and that the shareholders shall make a voluntary cash contribution of \$10,000 to be used in establishing a surplus account of a corresponding amount."

Approved.

Letter dated December 4, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Concordia', Concordia, Kansas, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$50,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock shall be used to eliminate substandard assets in the



12/6/33

-16-

"amount of \$50,000, all as set forth in your memorandum of November 21, 1933."

Approved.

Letter dated December 4, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by five members of the Board, reading as follows:

"In accordance with the recommendation of Acting Comptroller Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank in Ord', Ord, Nebraska, from \$60,000 to \$30,000, pursuant to a plan of rehabilitation which provides that the bank's capital shall be increased by the sale at par of \$30,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock shall be used to eliminate a corresponding amount of substandard assets and depreciation as determined by your office, all as set forth in Mr. Awalt's memorandum of November 18, 1933."

Approved.

Letter dated December 5, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by six members of the Board, reading as follows:

"Receipt is acknowledged of Acting Comptroller Awalt's letter dated November 24, 1933, with reference to the Board's letter of November 18, 1933, approving a proposed reduction in the common capital stock of The First National Bank of Omaha, Omaha, Nebraska.

"Mr. Awalt's letter quotes Section 8 of Article Fifth of the proposed amendments to the Articles of Association as submitted by the Reconstruction Finance Corporation and requests advice as to whether the provisions of this section will meet the requirements of the Board's condition numbered 5 as set forth in its letter of November 18, 1933.

"The proposed amendment to the Articles of Association appears to comply substantially with the above mentioned condition in the Board's letter and may be regarded as meeting its requirements, it being understood, of course, that any reduction in the bank's common capital stock will require the approval of the Board."

Approved.

Memorandum dated November 27, 1933, from Mr. Wyatt, General Counsel, recommending that the rulings attached to the memorandum be

12/6/33

-17-

published in the law department of the Federal Reserve Bulletin for December, 1933, and stating that all of the rulings are based upon rulings heretofore made by the Board and sent to the Federal reserve agents at all Federal reserve banks in mimeograph form, except the one entitled "Requests for Interpretations of Federal Reserve Act and Board's Regulations", which does not contain an interpretation of the law but pertains to the proper procedure in requesting such interpretations.

Approved.

Reply on December 5, 1933, approved by six members of the Board, to a letter dated November 14 from Mr. Walsh, Federal Reserve Agent at Dallas; the reply reading as follows:

"Receipt is acknowledged of your letter of November 14, 1933, in which you inclosed a copy of an opinion of your counsel in respect to the questions raised in a letter dated November 2, 1933, from the President of the First National Bank of San Angelo, Texas, relative to the First Mortgage Loan Company of San Angelo, and a copy of your letter of November 14, 1933, to the president of the national bank in reply to his letter of November 2.

"In general, the Board concurs in the conclusions of your counsel in respect to the questions presented. However, the Board does not feel that it has sufficient information to enable it to determine whether the First Mortgage Loan Company is a securities company within the purview of Section 20 of the Banking Act of 1933, or that it can undertake to pass on the question at this time.

"The question whether an affiliate comes within the provisions of Section 20 does not depend upon its charter powers or the purposes for which it was organized, but upon the nature of the business in which it is actually engaged. The letter from the President of the First National Bank does not state definitely the kind of business in which the First Mortgage Loan Company is engaged, and, in the absence of extraneous information, the Board does not feel that the facts are sufficient to justify a definite ruling on the question whether the loan company is a securities company of the kind referred to in Section 20."

Approved.



12/6/33

-18-

Reply on December 4, 1933, approved by five members of the Board, to a letter dated November 17 from Mr. Curtiss, Federal Reserve Agent at Boston; the reply reading as follows:

"Reference is made to your letter of November 17, 1933, your Inquiry No. 38, regarding the applicability of Section 8A of the Clayton Act to the service of Mr. Philip Spalding as a member of the firm of Estabrook & Co., Boston, Massachusetts, as a director of The First National Bank of Boston, Boston, Massachusetts, and as a director and officer of The First National Bank of Easton, North Easton, Massachusetts.

"You inquire, first, whether the margin accounts of Estabrook & Co. should be classed as loans secured by stock or bond collateral within the meaning of Section 8A. However, in view of the fact that Mr. Spalding has already received a permit under the provisions of the Clayton Act covering his service of these three institutions, and in view of the fact that permits heretofore issued continue in force until revoked, as stated in the Board's letter of September 16, 1933, X-7591, it will not be necessary for Mr. Spalding to obtain a new permit under the Clayton Act covering the services described in his present permit.

"You inquire also whether the permit heretofore issued to Mr. Spalding pursuant to the provisions of the Clayton Act will also authorize him to serve the institutions covered by that permit in view of the enactment of Section 32 of the Banking Act of 1933.

"The permit heretofore issued to Mr. Spalding was issued pursuant to the provision of Section 8 of the Clayton Act which provides in substance that the prohibitions contained in that Act shall not be applicable if permit has been issued by the Board; and which authorizes the Board to issue such permits under certain conditions. The Board's permit, therefore, was issued pursuant to the authority granted by the Clayton Act and covered services affected by the Clayton Act. Subsequently, however, Section 32 of the Banking Act of 1933 was enacted. That section relates to different relationships than those dealt with in the Clayton Act, and it contains a provision authorizing the Board to issue permits covering the relationships to which it is applicable. Accordingly, permits issued under the authority granted by that section cover relationships affected by that section; and permits issued under the authority granted by the Clayton Act cover services affected by the provisions of the Clayton Act. Accordingly, permits issued under the authority of the Clayton Act with respect to relationships to which that Act is applicable do not cover services which are now prohibited by Section 32 of the Banking Act of 1933, and it will, therefore, be necessary for Mr. Spalding to obtain a permit pursuant to the provisions of Section 32."

Approved.



12/6/33

-19-

Reply on December 5, 1933, approved by six members of the Board, to a letter dated October 13 from Mr. Harris Creech, President of the Cleveland Clearing House Association, Cleveland, Ohio; the reply reading as follows:

"This refers to your letter of October 13, 1933, requesting a ruling of the Federal Reserve Board on the question whether that provision of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, which provides that, 'No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand', prevents Ohio banks from continuing their present practice of absorbing and paying the Ohio two mill tax upon deposits as an operating expense of each bank.

"A ruling upon this question has been delayed by the fact that it bore a very close relation to another question pending before the Board which was of general importance and some difficulty and which required extensive investigation and numerous conferences before it could be disposed of; and it was felt that both questions should be considered together.

"The Board has heretofore ruled that the absorption by a member bank of taxes levied by the State of Kentucky upon deposits and paid by such bank 'for and on behalf, and as the agent', of its depositors would constitute an indirect payment of interest within the meaning of section 19 of the Federal Reserve Act, as amended, since the amount of the tax paid by such member bank represented a fixed percentage of the depositors' balances. It was necessary for the Board to reconsider that ruling in the light of the brief filed by your counsel; because the practical effect of the Kentucky statutes regarding taxes on bank deposits seems to be substantially the same as that of the Ohio statutes on this subject.

"Upon a careful reconsideration of this subject, in the light of the brief filed by Counsel for the Cleveland Clearing House Association, the Federal Reserve Board has reached the conclusion that the absorption of such taxes should not be regarded as an indirect payment of interest within the meaning of section 19 of the Federal Reserve Act, as amended; because such taxes represent a certain percentage of the funds on deposit on a single day of the tax year and have no relation either to the average amount on deposit for any given period of time or to the length of time for which the bank has the use of the money. These considerations and other considerations pointed out by your counsel make the absorption of such taxes distinguishable from the absorption of such items as exchange and collection charges in an amount equal to a fixed percentage of a deposit balance, which has been held

12/6/33

-20-

"by the Federal Reserve Board to be an indirect payment of interest contrary to section 19 of the Federal Reserve Act.

"The Federal Reserve Board is of the opinion, therefore, that the absorption by member banks in Ohio of the Ohio two mill tax upon deposits as an operating expense of each bank does not, in itself and in the absence of special factors in particular cases which might indicate the contrary, constitute a payment of interest by such banks and is not inconsistent with that provision of section 19 of the Federal Reserve Act which forbids any member bank, directly or indirectly by any device whatsoever, to pay any interest on any deposit which is payable on demand. The Board is also of the opinion that the amount of taxes so absorbed need not be taken into consideration in determining whether member banks are paying interest on time deposits at a rate in excess of the limitations prescribed by the Federal Reserve Board, pursuant to that provision of section 19 of the Federal Reserve Act which requires the Federal Reserve Board from time to time to limit by regulation the rate of interest which may be paid by member banks on time deposits.

"This ruling is also applicable to member banks in Kentucky and other states having similar laws regarding the taxation of bank deposits on an ad valorem basis."

Approved.

Letter dated December 5, 1933, to Mr. Curtiss, Federal Reserve Agent at Boston, approved by six members of the Board, reading as follows:

"There is inclosed a copy of a report of a special study of the Fiscal Agency Operations of the Federal Reserve Bank of Boston.

"The Board desires that the detailed information contained in this report be brought to the attention of the Board of Directors of your bank, and that the Board be advised of any action which may be taken in connection therewith.

"The Board will also appreciate advice as to whether the recommendations of its examiner (pages 27-29) in regard to auditing functions with a view to maintaining a more complete control over the assets, accounts and functions of the Fiscal Agency Department, have been adopted."

Approved.

Reply on December 4, 1933, approved by five members of the Board, to a letter dated November 18 from Mr. Geery, Governor of the Federal Reserve Bank of Minneapolis; the reply reading as follows:



12/6/33

-21-

"Referring to your letter of November 18, you are correct in your understanding that the Bureau of Engraving and Printing does not carry surety bonds to cover losses of the character referred to in my letter of November 15. While the Board was willing in this instance to suggest that the Federal Reserve banks involved absorb the loss on the twelve \$100 denomination Federal Reserve notes of your banks presented for redemption with counterfeit seals and serial numbers, it does not admit of any liability in connection with these notes and its action in this case does not set a precedent to cover any similar situations that may arise in the future."

Approved.

Letter dated December 5, 1933, approved by six members of the Board, to an applicant for a permit under the Clayton Act, advising of approval of the application as follows:

Mr. George C. Hollis, for permission to serve at the same time as director and officer of The First National Bank, Eagle Pass, Texas, and as director of the Banco Mercantil de Monterrey, Monterrey, N. L., Mexico.

Approved.

There were then presented the following applications for original or additional stock, or for the surrender of stock, of Federal reserve banks:

	<u>Shares</u>	
<u>Application for ORIGINAL Stock:</u>		
<u>District No. 7.</u>		
National Bank of Monticello, Monticello, Illinois	36	36
<u>Applications for ADDITIONAL Stock:</u>		
<u>District No. 1.</u>		
First National Bank, Lewiston, Maine (Increase in capital through issue of preferred stock, partly offset by decrease in surplus)	180	180
<u>District No. 7.</u>		
Muscatine Bank & Trust Co., Muscatine, Iowa (Increase in surplus)	15	15



12/6/33

-22-

<u>Applications for ADDITIONAL Stock: (Continued)</u>		<u>Shares</u>
<u>District No. 9.</u>		
First State Bank of Chatfield, Chatfield, Minnesota (Increase in surplus)		2
Merchants State Bank, Freeman, South Dakota (Increase in surplus)		2
		4
		<hr/>
		Total 199

<u>Applications for SURRENDER of Stock:</u>			
<u>District No. 2.</u>			
First National Bank, Garfield, New Jersey (Being liquidated through conservator)		210	210
<u>District No. 3.</u>			
First National Bank, New Berlin, Pennsylvania (Insolvent)		39	
Peckville National Bank, Peckville, Pennsylvania (Insolvent)		210	249

<u>District No. 7.</u>			
Marion National Bank, Marion, Indiana (Voluntary liquidation, succeeded by Marion National Bank of Marion, Indiana)		210	
First National Bank in Ashton, Iowa (Insolvent)		15	
Citizens National Bank, Belle Plaine, Iowa (Being liquidated through conservator)		45	
Olney National Bank, Hartford, Michigan (Insolvent)		27	
Cedar Grove National Bank, Cedar Grove, Indiana (Insolvent)		19	
First National Bank, Wakarusa, Indiana (Insolvent)		20	
First National Bank, Le Mars, Iowa (Insolvent)		90	426
		<u>Total</u>	<u>885</u>

Approved.

Thereupon the meeting adjourned.

Robert Merrill  
Secretary.

Approved:

E. R. Mack  
Governor.