

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Tuesday, December 12, 1933, at 10:30 a. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Paulger, Chief of the Division of Examinations
Mr. Wyatt, General Counsel
Mr. Wingfield, Assistant Counsel

ALSO PRESENT: Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia
Mr. James M. Brittain of counsel for the Federal Reserve Bank of Philadelphia
Mr. C. D. White, President, Guarantee Trust Company, Atlantic City, New Jersey
Mr. C. L. Cole, Vice President and Attorney for the Guarantee Trust Company
Mr. Harry Bacharach, President of the Equitable Trust Company, Atlantic City, New Jersey, and Mayor of Atlantic City
Mr. Charles S. Moore, Attorney for the Equitable Trust Company
Mr. L. A. Harr, representing the Guarantee Trust Company and Equitable Trust Company
Mr. George Compton, Supervisor of Bank Liquidations and Reorganizations of the Department of Banking and Insurance of the State of New Jersey.

The representatives of the Guarantee Trust Company and the Equitable Trust Company made statements in support of the position that the proposed plan of reorganization of the two institutions, previously submitted to the Board by Federal Reserve Agent Austin, is the only one possible under the circumstances; that, because of the banking

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and business conditions existing in Atlantic City at the present time, it would not be possible to raise the necessary capital for the organization of two new institutions; that the reorganized institutions would be in a stronger position than new banks; that they have a good earning power and the confidence of the community and, with the return of better banking and business conditions, will work out of their present difficulties; that the difficulties of the two institutions are attributable to a considerable extent to their having merged certain weak banks and having attempted to prevent the closing of other banks; that it is feared that if the two companies are placed in liquidation it will result in much larger losses to depositors as it is felt that debtors will resort to bankruptcy and other methods of avoiding the payment of their obligations; and that there is a very strong possibility that the failure of the institutions to reopen would result in a collapse of the business situation in Atlantic City.

Mr. Compton stated that his experience has been that much more can be salvaged from the assets of a bank as a going institution, even where the deposits are frozen to the extent of 100%, as contemplated in the case of the Guarantee Trust Company and the Equitable Trust Company, than possibly could be realized from liquidation through receivership; and that Mr. Kelly, Commissioner of Banking of the State of New Jersey, is very much in favor of reopening the trust companies for the reasons that (1) he is absolutely of the opinion that it is in the best interests of the community and that if they are not allowed to reopen it will result in a collapse of the Atlantic City situation, (2) the

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bank's condition is the result of their having come to the rescue of other banks in the city and attempting to prevent the collapse of the banking situation, and (3) that the management is highly regarded.

Mr. Compton also read letters dated December 11, 1933, from the Banking Commissioner of the State of New Jersey to the Acting Secretary of the Treasury, recommending that he concur in granting a license to reopen the two institutions; from the Assistant Attorney General of New Jersey and William H. Compton and Company, certified public accountants, to the Commissioner of Banking of New Jersey with regard to the question whether, where preferred stock is issued in an amount in excess of its par value and is retireable at an amount in excess of par, the excess amount constitutes a liability; and from Mr. Compton to the Federal Reserve Board, stating that the Perth Amboy Trust Company and the Raritan Trust Company, both of Perth Amboy, New Jersey, and the Hamilton Trust Company of Paterson, New Jersey, all in the Second Federal Reserve District, were rehabilitated by issuing preferred stock subscribed for by the depositors of the institutions in an amount in excess of par and to be retired at the subscription price, and that the action in these cases was not questioned by the Federal reserve bank.

Mr. Austin stated that when the plan of reorganization of the two trust companies was presented to the Federal Reserve Bank of Philadelphia, the bank advised the institutions of the Board's position with regard to the issuance of preferred stock to be retired at a premium, but that it was felt by the trust companies that the proposed plan of

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reorganization was the only one possible under the circumstances, and that, after a careful examination of the assets of the bank by Federal reserve bank examiners, he had recommended that the reorganization plans be approved.

The proposed plan of reorganization was discussed in detail and toward the end of the discussion it was pointed out that the two institutions might withdraw from membership in the Federal Reserve System and reopen as nonmember banks. Mr. White stated that it would not be satisfactory to reopen as nonmember banks. It was also pointed out that a new bank might be organized to take over the unrestricted deposits of these two companies and to liquidate their indebtedness to their old depositors and other creditors. Mr. White asserted that it would not be possible in Atlantic City to raise the necessary capital for a new bank.

At the conclusion of the discussion, Governor Black stated that the Board would give further consideration to the proposed plans of reorganization in the light of the information presented at this meeting, and advise with regard to the Board's decision in the matter as soon as possible.

The representatives of the Guarantee Trust Company and the Equitable Trust Company and Mr. Compton then left the meeting, and Mr. W. L. Hemingway, President of the Mercantile Commerce Bank and Trust Company, St. Louis, Missouri, and Mr. Frank A. Thompson, of counsel for the bank, entered the room.

Governor Black stated that yesterday he discussed with Mr. Hemingway and Mr. Thompson the matter of the disposition by the Mercan-

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tile Commerce Bank and Trust Company of the stock held by it in the Mercantile Commerce National Bank in St. Louis, and indicated to them that it might be well for them to submit some suggestion or request to the Board, and that, accordingly, Mr. Hemingway had submitted the following written request:

"While we feel it unfortunate that this misunderstanding has arisen we think the Federal Reserve Board is not without responsibility in this matter. However we realize that the Board feels that we were at fault and since we are members of the Federal Reserve System it is our purpose to conduct our business in harmony with the wishes of the Federal Reserve Board. Therefore we request that the Board extend the time for the disposal of the stock for six months and that we will endeavor within that time to present a plan to the Board for the disposal of the stock without the liquidation of the bank and having due regard for our responsibility to depositors."

Mr. Hemingway referred to the resolution adopted by the board of directors of the Mercantile Commerce Bank and Trust Company at its meeting on October 20, 1933, copies of which previously had been furnished to the Board, and which requested that the Board permit the trust company to hold the stock of the national bank, and he stated that Mr. Thompson had prepared a brief on the matter setting forth the facts as they were understood by the bank, but that the brief had not been submitted to the Board for the reason that it was felt that there would be no advantage in further reviewing the facts at this time. He also stated that, if the Board sees fit not to reconsider its previous action with regard to the holding of the stock of the Mercantile Commerce National Bank, the trust company would like to have an extension of six months of the time within which it may dispose of the stock in order that the matter may be disposed of without further discussion.

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Upon inquiry by Governor Black as to whether it was desired to file with the Board the brief referred to by Mr. Hemingway, Mr. Thompson stated that it was felt, after discussing the matter with the members of the Board and its counsel and members of its staff, that it would be inadvisable to pursue the discussion further, and that it had been concluded not to present the brief.

Messrs. Hemingway and Thompson then left the meeting.

Mr. Szymczak moved that the request of the Mercantile Commerce Bank and Trust Company for an extension of six months of the time within which it may dispose of the stock of the Mercantile Commerce National Bank be granted, and that the Secretary and the Board's General Counsel be requested to prepare a letter to the Mercantile Commerce Bank and Trust Company, advising that the Board approves the request with the understanding that a further extension of time will not be granted by the Board.

Carried.

The Governor was also authorized to approve the proposed letter when prepared.

Governor Black then referred to the proposed plan of reorganization of the Guarantee Trust Company and the Equitable Trust Company of Atlantic City, New Jersey, and stated that he felt that the proper course to pursue in that situation was for new institutions to be organized as he did not see how the depositors would benefit in any way from the reorganization plans proposed, and that he would like authority from the Board to discuss this matter with the officers of the two banks while they were in Washington.

The authority requested by Governor Black was granted.

At this point, Mr. Wingfield left the room.

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Governor Black then read a letter received under date of November 29, 1933, from Mr. Case, Federal Reserve Agent at New York, referring to the inquiries received from banks in Puerto Rico concerning membership in the Federal Reserve System and setting forth reasons for the suggestion contained in the letter that the question of membership of banks located in territories, dependencies and insular possessions of the United States be considered as one for government study, presumably with the assistance of the Federal Reserve Board and the Federal reserve banks, and, failing such a solution, that the matter be considered as a System matter, and a System committee appointed similar to the Committee on Branch, Group and Chain Banking to study the matter and submit a prompt report upon the whole question of membership of banks in territories, dependencies and insular possessions. Attention was called to the fact that Mr. Case's letter was received before the letter prepared in accordance with the action taken at the meeting of the Board on November 28, 1933, was approved by the members of the Board, and that, accordingly, that letter had not been dispatched.

The suggestion contained in Mr. Case's letter was discussed and the opinion expressed by some members of the Board that, in view of the fact that banks in territories, dependencies and insular possessions of the United States may apply for membership in the Federal Reserve System, the proposed study should be made in order that the Board may be in a position to pass upon applications for membership from such banks. Mr. James made the suggestion that it might be desirable for the Board to employ Mr. John W. Pole, former Comptroller of the Currency, to

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conduct the survey in cooperation with representatives of the Federal Reserve Banks of New York, Atlanta and San Francisco, and if necessary, with representatives of the interested departments of the Government.

At the conclusion of the discussion, Mr. Hamlin moved that the Governor be authorized to take the matter up with Mr. Pole and to ascertain whether he would be in a position to enter the employ of the Board in connection with the proposed survey.

Carried.

The Committee then considered and acted upon the following matters:

Telegram dated December 11, 1933, from Mr. O. S. Powell, Statistician of the Federal Reserve Bank of Minneapolis, advising 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.

Memorandum dated December 11, 1933, from Mr. Morrill, Secretary and Mr. Wyatt, General Counsel, stating that, due to the increase in the volume of work in the office of General Counsel, it is recommended that Mrs. Margaret F. Raynor, a stenographer in the Secretary's office, be transferred to the office of General Counsel, at her present salary of \$1,600 per annum. The memorandum also stated that as soon as a satisfactory person can be secured, a memorandum will be submitted to the Board recommending the appointment of a stenographer to fill the vacancy in the Secretary's office caused by the transfer of Mrs. Raynor.

Approved.

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Reply to a letter dated December 6, 1933, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago; the reply reading as follows:

"Mr. Szymczak has brought to the attention of the Board your letter of December 6 in regard to your relations as director of the Texas Corporation, the Diamond Match Company, and Wilson and Company, Inc.

"The Board will not object to your deferring your resignation until February in the case of the corporation which has its annual stockholders' meeting in that month but it does not feel that action should be deferred until April in any case. In the circumstances, the Board suggests that you take the necessary action in all three cases not later than February."

Approved.

Telegraphic reply on December 11, 1933, approved by three members of the Board, to the telegram dated December 4 from Mr. Newton, Federal Reserve Agent at San Francisco, requesting a leave of absence for ninety days and approval by the Board of the appointment of Mr. William A. Day, Deputy Governor of the Federal Reserve Bank of San Francisco, as acting assistant Federal reserve agent during Mr. Newton's absence. The reply read as follows:

"Your telegram December 4 STOP While you do not expressly so state it is inferred that your request is due to condition of your health and therefore Board approves leave of absence for ninety days in accordance with your request STOP With regard to request for approval of appointment of Mr. Day as Acting Assistant Federal Reserve Agent it is established policy of Board to require acting assistant Federal reserve agents to be entirely independent of operating department of Federal reserve bank and responsible solely to Federal reserve agent STOP Accordingly it would be necessary for Mr. Day to resign as Deputy Governor of bank and to be transferred to payroll of Federal reserve agent STOP Therefore inquiry was made of Governor Calkins as to whether Mr. Day's resignation would meet with his approval and he has advised as follows: QUOTE Mr. Newton's request for leave was made at my suggestion STOP I did not realize it would be necessary for Mr. Day to actually resign and do not think it is

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"desirable that he should but contemplated his being granted leave STOP If it is necessary for him to resign I am sure Mr. Newton will withdraw that part of his application UNQUOTE STOP Board will be glad to consider your recommendation as to any appointment which would comply with policy above referred to."

Approved.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Please wire separately for head office and each branch, if any, name and official title of each person, other than an assistant Federal Reserve agent, authorized to act for the Federal Reserve agent in issuing Federal Reserve notes to the bank and in receiving such notes from the bank, also amount of bond, if any, provided for each such person."

Approved.

Letters to the boards of directors of the following 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 appropriate amount of stock in the Federal reserve bank of the district in which the applicant is located:

<u>Applicant Bank</u>	<u>Federal Reserve Bank</u>
"Farmers and Merchants Bank of Summersville", Summersville, West Virginia	Richmond
"Ronan State Bank", Ronan, Montana	Minneapolis

Approved.

Telegraphic reply to a telegram dated December 8, 1933, from Mr. Peyton, Federal Reserve Agent at Minneapolis; the reply reading as follows:

"Referring your telegram December 8 re application Farmers & Merchants State Bank, Sacred Heart, Minnesota, Board grants

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"applicant extension of time to January 9, 1934 in which to comply with conditions of membership."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with the recommendation of Acting Comptroller of the Currency Awalt, the Federal Reserve Board approves a reduction in the common capital stock of the 'First National Bank in Greenwich', Greenwich, Connecticut, from \$150,000 to \$112,500, pursuant to a plan which provides for a reduction in the par value of the present common capital from \$100 to \$25 per share, the sale of \$37,500 par value new common stock for \$49,500, and the use of the released capital funds, together with the \$12,000 premium on the sale of the new common stock, in eliminating estimated losses in the amount of approximately \$15,659 and depreciation in lower grade securities of approximately \$33,517 as classified by the National bank examiner in his report of examination as of October 23, 1933, all as set forth in Mr. Awalt's memorandum of November 29, 1933."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Board approves a reduction in the common capital stock of 'The First National Bank of Sterling', Sterling, Kansas, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital stock shall be increased by the sale at par of \$25,000 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 and depreciation in the amount of approximately \$16,100, and in increasing surplus account by approximately \$8,900, all as set forth in your memorandum of December 4, 1933."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

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

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"common capital stock of 'The First National Bank in Richmond', Richmond, California, 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 and depreciation aggregating approximately \$46,832.00 and to increase the surplus or undivided profits account by approximately \$3,168.00, all as set forth in Acting Comptroller Awalt's letter of November 27, 1933."

Approved.

Reply to a letter dated October 16, 1933, from Mr. Hoxton, Federal Reserve Agent at Richmond; the reply reading as follows:

"Receipt is acknowledged of your letter of October 16, 1933, transmitting a copy of the memorandum prepared by Assistant Cashier Dillard with reference to the Fiscal Agency operations under his charge and the special study thereof made by the Board's examiners in connection with the recent examination of the Federal Reserve Bank of Richmond. Reply to your letter has been delayed in order that the memorandum might be reviewed by the field examiner who conducted the special study.

"It is noted that your board of directors regard as 'somewhat unjustified' the examiner's comment, in connection with the practice of padding subscriptions, to the effect that 'when a new type of padding is resorted to by a subscribing bank, it seems that the reserve bank officers should be required to exercise some effective initiative instead of waiting until the practice has been permitted to run to extremes over a long period of time.'

"This comment of the examiner was based upon a study of a portion of the issues floated during the years 1931, 1932 and 1933. So far as the letters of July 21, 1931 and January 23, 1933 are concerned, 'both attempting to correct the abuses of padding subscriptions', according to your letter, the recipient might easily gain the impression from the phraseology used that the existence of the practice was not definitely established nor serious enough to be regarded as of great importance. The next several issues of securities floated by the Treasury Department after the letter of July 21, 1931 were not popular generally among the dealers and the types of banks which resorted to the serious padding practices, although it was noted from the report that some padding was done in your district in connection with the September, 1931 and December, 1931 issues. For example, attention is directed to the fact that the Peoples State Bank of South Carolina filed subscriptions for 80 customers in Class D

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"for \$8,000,000 for the issue of 3% notes dated September 15, 1931. This was the next issue after the letter of July 21, 1931. The bank suffered some loss on these bonds, and had some of them on hand when it closed its doors December 31, 1931.

"During the last eight months of 1932 padding again was resorted to in increasing proportions in your district, as well as in certain others. The letters of January 23, 1933 to banks in your district contained in part practically the same language used in the 1931 letter, namely:

'An analysis of the subscriptions received by this bank to the last offering * * * seems to indicate the possibility that some banks of the district have resorted to what has been called "padding subscriptions" in order to obtain the amount of securities desired, a practice which is not approved by the Federal Reserve Banks or by the Treasury Department.'

"This letter followed a long series of subscriptions for issues, many of which were padded, some to extremes, and, on account of financial conditions existing when the issues after February 1, 1933 were floated, as well as certain requirements instituted by the Treasury Department to curb padding, it was noticed that padding in general decreased considerably. Therefore, it does not appear that either of the letters referred to, each issued after a series of padded issues and before a series of issues not padded, was directly the cause of natural decline in padding practices.

"It seems unnecessary to enter into any extended discussion of the other points covered by Mr. Dillard's memorandum. Apparently the memorandum is predicated mainly upon an analysis from an operating stand-point of the subscriptions made by one bank to various issues of Government securities during 1931, 1932 and 1933, whereas the special study by the Board's examiner represents an analysis of the subscriptions of many banks to certain issues during the same period, for the purpose primarily of pointing out matters to be covered by the Auditing Department. Attention is called, however, to the following comments of the examiner with respect to Mr. Dillard's memorandum:

"1. In several instances Mr. Dillard admits that his department was somewhat in error. (See paragraph 2, page 1, paragraph 7 and 8, page 2).

"2. In several instances Mr. Dillard refers to issues which were not covered in the special study and not intended to be criticized. (See paragraph 1, 3 and 4, page 2, and paragraph 3 and 4, page 3).

"3. In several instances Mr. Dillard refers to items which were not criticized because they were single subscriptions. (See paragraph 5 and 6, page 2, and paragraph 1 and 5, page 3).

"4. In the memorandum (paragraph 4, page 1 and paragraph 7, page 3) reference is made to the practice of consolidating

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"two or more subscriptions into one allotment. The examiner does not fully agree with the opinion expressed by Mr. Dillard that 'the practice which is followed by us in consolidating all subscriptions placed by a bank for its own account into one subscription, is generally understood and they do not file them separately for their own account for the purpose of securing larger allotments', in so far as 1931 and 1932 issues are concerned, although it may be that since then the practices of the Federal reserve bank has become more nearly uniform and generally known.

"5. In the memorandum (paragraph 8, page 3 and paragraph 1 and 2, page 4) reference is made to a subscription of \$10,000 by Mr. Charles E. Reiman, President of the Western National Bank, Baltimore, Maryland. The report referred to the subscriptions submitted by the bank of which Mr. Reiman is a director, a considerable number of which were in the amount of \$10,000 each, including his subscription, and called attention to the actual results which indicated that the bank obtained an over-allotment. Mr. Dillard evidently misunderstood the point involved.

"Several of the paragraphs in Mr. Dillard's report are not commented upon because they refer to portions of the report which are self-explanatory.

"The Board is pleased to note that the suggestions made by its examiner in regard to auditing functions have been given consideration, and that in the future the auditing department will maintain a more complete control over the assets, accounts and functions of the Fiscal Agency Department of your bank."

Approved.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In advising Board of payments on subscriptions to Federal Reserve bank stock by organizing national banks please show number of shares applied for and date application was forwarded to Board. For this purpose the meaning of code 'NARRATEDLY' on page 166 of Federal Reserve telegraph code book is changed effective immediately to read as follows: '(Name and location of national bank) has today made required payment on account of subscription to (number of shares) of stock of this bank, application for which was forwarded to Federal Reserve Board on (date) with recommendation that the stock be allotted'."

Approved.

Telegraphic reply to a letter dated December 7, 1933, from Mr.

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Wood, Federal Reserve Agent at St. Louis; the reply reading as follows:

"Your letter December 7 re deposits of funds of City of St. Louis. Laws of Missouri require Funds Committee annually to select banks or trust companies which will give highest rate of interest for current deposits of the city's funds commensurate with the safety thereof. Question whether interest is required under State law with respect to deposits of such funds not entirely clear but matter has been considered by City Counselor of St. Louis and your counsel and Board finds no adequate reason on basis of information submitted for reaching a conclusion different from that expressed by your counsel."

Approved.

Letters to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. Ezra H. Bigelow, for permission to serve at the same time as director and officer of the Northborough National Bank, Northborough, Massachusetts, and as director and officer of the First National Bank, Westborough, Massachusetts.

Mr. John J. Colony, for permission to serve at the same time as director of the Winchester National Bank, Winchester, New Hampshire, and as director and officer of the Cheshire National Bank, Keene, New Hampshire.

Mr. Halsey C. Edgerton, for permission to serve at the same time as director of The Dartmouth National Bank of Hanover, Hanover, New Hampshire, and as director of the Northfield National Bank, Northfield, Vermont.

Mr. Joseph A. Norton, for permission to serve at the same time as director and officer of the First National Bank, Winsted, Connecticut, and as director of The Hurlbut National Bank, Winsted, Connecticut.

Mr. W. Rodman Peabody, for permission to serve at the same time as director of the Boston Safe Deposit and Trust Company, Boston, Massachusetts, and as director of The Merchants National Bank of Boston, Boston, Massachusetts.

Mr. Alfred L. Ripley, for permission to serve at the same time as director of the Federal Reserve Bank of Boston, Boston, Massachusetts, and as director and officer of The Merchants National Bank of Boston, Boston, Massachusetts.

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Mr. Benjamin F. Sargent, for permission to serve at the same time as director and officer of the Powow River National Bank, Amesbury, Massachusetts, and as director of The First National Bank of Merrimac, Merrimac, Massachusetts.

Mr. G. R. Catlett, for permission to serve at the same time as director and officer of the First National Bank, Fairmount, Illinois, and as director and officer of the First National Bank in Homer, Homer, Illinois.

Mr. F. J. Miller, for permission to serve at the same time as director and officer of the First National Bank, Ottawa, Kansas, as director and officer of the Lane State Bank, Lane, Kansas, and as director of The Commercial National Bank of Kansas City, Kansas City, Kansas.

Mr. E. E. Mullaney, for permission to serve at the same time as director and officer of the First National Bank, Collyer, Kansas, and as director of the Federal Reserve Bank of Kansas City, Kansas City, Missouri.

Mr. Edward O. Howard, for permission to serve at the same time as director and officer of the Walker Bank & Trust Company, Salt Lake City, Utah, and as director of the Salt Lake City branch, Federal Reserve Bank of San Francisco, Salt Lake City, Utah.

Approved.

There was then presented the following application for original stock of a Federal reserve bank:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 10.</u>		
First National Bank in Grand Junction, Grand Junction, Colorado	70	70

Approved.

Thereupon the meeting adjourned.

Approved:

E. R. Black

Governor.

Chas. Morrell
Secretary.