

A meeting of the Federal Reserve Board was held in Washington on Wednesday, December 13, 1933, at 11:15 a. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Boatwright, Assistant Counsel
Mr. Cagle, Federal Reserve Examiner

ALSO PRESENT: Mr. Ripley L. Dana, Counsel for Old Colony Trust Associates
Mr. Benjamin W. Guernsey, Trustee, Old Colony Trust Associates

Governor Black stated that the Old Colony Trust Associates, Boston, Massachusetts, a Massachusetts trust, had inquired of the Federal Reserve Bank of Boston whether, in filing its application for a permit authorizing it, as a holding company affiliate, to vote the stock held by it in member banks, it could eliminate from the application the clause requiring that the applicant shall agree not to declare any dividends unless provision is first made for any impairment in its capital; and that Mr. Curtiss, Federal Reserve Agent at Boston, had transmitted the inquiry to the Board with his letter of November 3, 1933. Governor Black said that, after a discussion yesterday with Messrs. Dana and Guernsey, he had taken the matter up with the Board's Legal Division and the Divisions of Examinations and Bank Operations.

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and that Counsel was of the opinion that the depreciation in the bank stock held in the assets of the trust resulted in an impairment of its capital, and that the Board should not grant a voting permit unless the trustees would agree not to pay dividends while such impairment remains unprovided for. He also stated that he had advised Messrs. Dana and Guernsey of Counsel's opinion, and had invited them to discuss the matter with members of the Board at this meeting.

Mr. Dana stated that the Old Colony Trust Associates was organized in 1928 by individuals acting as trustees, who sold to the public participating shares in the trust, such shares representing proportionate interests in the assets of the trust and in the income derived therefrom; that a total of approximately \$20,000,000 was received by the trustees from the sale of the participating shares, which was invested in the stocks of eighteen banks in the neighborhood of Boston at a cost of approximately \$19,000,000; that these stocks have since depreciated in value to something less than \$10,000,000; that the terms of the trust provide that the trustees shall not be required to differentiate between the principal and income of the trust but may make a distribution to the holders of participating shares without regard to principal or income; that the shareholders purchased the shares in reliance on the provision of the trust that dividends would be paid out of earnings; that dividends paid by the banks are now in the hands of the trustees available for distribution; that it is felt that it would be unfair to the shareholders for the trustees to agree not to pay dividends out of the earnings; and that, therefore, while the association

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would not object to entering into an agreement not to pay dividends except out of earnings, it feels it should not be required to agree that it will not pay dividends while its capital is impaired, particularly since, under the present circumstances, such an agreement would preclude the payment of dividends during the life of the present participating shareholders.

Reference was made by Mr. Dana to applications for membership in the Federal Reserve System which have been filed by four nonmember trust companies in which the Old Colony Trust Associates holds stock, and he stated that he had been advised that the condition of the trust companies is such that they are able to meet the requirements for membership, but that their admission to membership is being delayed by the requirement that the trust must first obtain a voting permit authorizing it to vote the stock held by it in the applicant institutions. He also stated that it is known generally that the four trust companies have applied for membership, and it is felt that if they are not admitted to membership it will affect public confidence, not only in the four institutions, but in the affiliated member banks as well.

Governor Black made the suggestion that the trust could meet the situation by writing down to their present value the carrying value of the bank stocks held in its assets and reducing the value of the participating shares on its books in an equal amount, which would eliminate the question of impairment of capital. Mr. Dana stated in response to that suggestion that it has always been the practice of the trust to carry its assets on its books at cost and to reduce the carrying

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value thereof only in the case of an actual loss realized from the sale of assets; that it is desired at this time to make no change in accounting methods for the reason that a suit has been filed against the trustees charging bad faith in the purchase three years ago of certain bank stock in which there has since been a substantial depreciation; and that, while the purchase was made in perfect good faith, it was felt that if a change in the accounting procedure of the trust were made at this time it would be referred to by counsel for the plaintiffs in the suit as an acknowledgment of improper methods. He also said that, as soon as this litigation is disposed of, the trustees will be glad to meet any requirements that the Board may make in the matter.

There followed a discussion of the purpose of the agreement under consideration, and it was pointed out that this was the only case out of forty or more applications for voting permits heretofore received in which the Board has been asked to waive the agreement, and that it would appear that Congress did not intend that there should be any different consideration accorded to business trusts, such as the Old Colony Trust Associates, which are holding company affiliates, than is accorded to corporations, associations, or other similar organizations.

During the consideration of the matter, Mr. Miller withdrew from the meeting, which continued as a meeting of the Executive Committee of the Board. At the conclusion of the discussion, Messrs. Dana and Guernsey also left the room.

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Governor Black suggested that the Committee take action on the following questions:

1. Whether the Board will grant the request of the trustees that the trust be permitted to file an application for a voting permit without agreeing in the application not to pay dividends unless provision is first made for impairment of capital;
2. Whether the Board will admit the four affiliated State trust companies which have filed applications for membership, without requiring that the Old Colony Trust Associates first obtain a voting permit, and;
3. Whether the Board will grant to the trust a temporary permit.

Accordingly it was voted, (1) not to grant the request of the trustees, (2) that the four State trust companies should not be admitted to membership until the Old Colony Trust Associates files a proper application for a voting permit and the Board grants such permit, and (3) not to grant a temporary permit to the trust. On the third question Mr. Hamlin voted "aye".

The Secretary was requested to advise the Federal Reserve Agent at Boston in accordance with the action taken, and Governor Black stated that he would advise Messrs. Dana and Guernsey of the Board's action.

Mr. Szymczak then referred to a letter received from Mr. Williams, Federal Reserve Agent at Cleveland, under date of December 11, 1933, calling attention to the fact that, because of the provisions of Section 8A of the Clayton Act, there is danger of the Cleveland bank losing the services of Mr. George D. Crabbs as a Class B director and of Messrs. C. N. Manning and Fred A. Geier, as directors of the Cincinnati branch, as they are also directors of corporations which make loans secured by stock or bond collateral. Mr. Szymczak inquired as to what action, in addition to recommending to Congress an amendment to the law, is being taken in connection with communications of this kind received from Federal reserve banks.

It was stated that, in accordance with the action taken at the

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meeting of the Board on December 6, 1933, letters are being prepared to the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives, recommending that Section 8A of the Clayton Act be amended so as not to apply to cases of the kind referred to in Mr. Williams' letter, and that a circular letter is also being prepared, for the consideration of the Board, to the Federal reserve agents at all Federal reserve banks, advising that such a recommendation will be made.

It was agreed that a reply should be made to Mr. Williams' letter, and the Secretary was requested to prepare such a reply.

Mr. James presented the following draft of letter to Mr. Norris, Governor of the Federal Reserve Bank of Philadelphia, prepared by the Committee on Salaries and Expenditures following the action taken at the meeting of the Board on December 8, 1933:

"The Board has considered carefully the report dated December 1, 1933, of the committee appointed pursuant to a resolution adopted at a meeting of your directors on November 15 in regard to changes in the official staff and your statements to the Board on Friday, December 8.

"It is the view of the Board that the duties and responsibilities devolving upon the Federal Reserve banks are of such extent and character as to justify the employment of competent counsel on a full time salary basis, to be located in the bank's offices in close association with the executive officers so that he may participate conveniently in their conferences and be available for frequent consultation and to consider correspondence and other matters involving legal questions. In other words, the Board feels that it would be of considerable value to the Federal Reserve banks to have their counsel as an integral part of their staff organizations. It is assumed that this is what you have in mind as to Mr. Sinclair, in view of his past experience and relations with the Federal Reserve bank, and that you would probably designate him as Deputy Governor and General Counsel. On this basis the Board is prepared to give favorable consideration to the salary payment involved.

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"Such an arrangement would eliminate the necessity for the retention, on an annual basis, of outside counsel as it is assumed that the bank would employ special counsel in exceptional cases only.

"As indicated to you at the meeting on Friday, there is a feeling on the part of the members of the Board that in making recommendations for additions to the staff of senior officers consideration should be given to the desirability of obtaining the services of an official who has had broad practical experience in commercial banking, and when this matter has again been given consideration by your directors the Board will be glad to receive their further recommendation in regard to the strengthening of the bank's official staff. In the circumstances, the Board is deferring action on the other changes suggested in your letter."

Approved.

Mr. James then stated that, at the request of Governor Black, and pursuant to the action taken at the last meeting, he had approached Mr. John W. Pole yesterday with regard to his entering the employ of the Federal Reserve Board for the purpose of making a study of banking conditions in Puerto Rico, and possibly other territories, dependencies and insular possessions of the United States, in connection with the question of the admission to membership in the Federal Reserve System of banks located in such territories, dependencies and insular possessions, and that Mr. Pole had advised this morning that he would be glad to undertake the work. Mr. James also stated that Mr. Pole had agreed to accept appointment by the Board with the understanding that his salary would be at the rate of \$1,000 per month and that he would be reimbursed for actual necessary transportation and subsistence expenses.

Governor Black stated that he had discussed the proposed appointment of Mr. Pole with Mr. Case, Federal Reserve Agent at New York, who was in Washington today, and that Mr. Case had said that he knew of no

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one better fitted to conduct the study.

After discussion, Mr. Pole 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 as Special Adviser to the Federal Reserve Board, with salary at the rate of \$1,000 per month and with the understanding that he will be reimbursed for actual necessary transportation and subsistence expenses incurred by him when absent from Washington on official business, all effective as of December 13, 1933. It was understood that the appointment of Mr. Pole was for the purpose of making a study of banking and other conditions in Puerto Rico and in such other territories, dependencies and insular possessions of the United States as the Board may later designate, and of submitting a report to the Federal Reserve Board thereon for consideration in connection with the determination of the policy to be adopted by it with regard to the admission to membership of banks located in Puerto Rico and other territories, dependencies and insular possessions of the United States.

The Committee then considered and acted upon the following matters:

Reply to a letter dated December 5, 1933, from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland; the reply reading as follows:

"The Federal Reserve Board approves the recommendation contained in your letter of December 5 that your bank be authorized to continue for an additional period of three months the temporary assignment of J. W. Kossin and E. E. Edmiston to the Failed Banks Division, Loans and Discounts Function at their present salaries which are in excess of the maximum of \$3,600 fixed in the personnel classification plan for the positions occupied."

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

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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>
"The Utica Savings Bank Company", Utica, Ohio.	Cleveland
"Union Bank of Winchester", Winchester, Virginia.	Richmond
"Monroe City Bank", Monroe City, Missouri.	St. Louis
"Barton County State Bank", Lamar, Missouri.	Kansas City

Approved.

Telegraphic reply to a letter dated December 9, 1933, from Mr. Curtiss, Federal Reserve Agent at Boston; the reply reading as follows:

"Referring your letter December 9, 1933 re application Bristol County Trust Company, Taunton, Massachusetts, Board grants extension of time to January 9, 1934 within which to comply with conditions of membership"

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Exchange National Bank of Olean', Olean, New York, from \$1,000,000 to \$500,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$500,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock, together with approximately \$135,345 from the bank's surplus and undivided profits, shall be used to eliminate substandard assets and depreciation in the amount of approximately \$635,345, all as set forth in your memorandum of December 5, 1933."

Approved.

Letter to Mr. Stevens, Federal Reserve Agent at Chicago,

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reading as follows:

"Receipt is acknowledged of Mr. Young's letter of December 3, 1933, regarding the Clayton Act application of Mr. Warren Sutliff of Peoria, Illinois, in which you state that the applicant is also president and director of the Fond du Lac State Bank of East Peoria, which was not listed in his application. You state that he intends to resign as president and director of that bank or will not accept re-election at the annual meeting in the early part of January.

"You suggest that Mr. Sutliff should not be required to file an application covering his service of that bank, and under the circumstances it would appear that such an application would be unnecessary."

Approved.

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

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 5.</u>		
First National Bank in West Union, West Union, West Virginia	36	36
<u>District No. 7.</u>		
First National Bank in Wabash, Wabash, Indiana	72	72
<u>District No. 12.</u>		
Oilfields National Bank in Brea, Brea, California	36	36
	<u>Total</u>	<u>144</u>
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 2.</u>		
First National Bank, Belmar, New Jersey (Being liquidated through conservator)	60	
First National Bank, Branchville, New Jersey (Being liquidated through conservator)	<u>75</u>	135
<u>District No. 4.</u>		
First National Bank, Stanford, Kentucky (Being liquidated through conservator)	60	
First National Bank, Woodsfield, Ohio (Being liquidated through conservator)	60	
First National Bank, Scottdale, Pennsylvania (Voluntary liquidation, succeeded by First National Bank of Scottdale)	<u>510</u>	630

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<u>Applications for SURRENDER of Stock: (Continued)</u>		<u>Shares</u>	
<u>District No. 5.</u>			
National Bank of Fairmont, Fairmont, West Virginia (Insolvent)	600		600
<u>District No. 6.</u>			
First National Bank, Headland, Alabama (Being liquidated through conservator)	94		94
<u>District No. 7.</u>			
First National Bank, La Harpe, Illinois (Insolvent)	45		
First National Bank, Clinton, Indiana (Insolvent)	69		
First National Bank, Clearfield, Iowa (Insolvent)	18		
First National Bank, Dunkerton, Iowa (Insolvent)	36		
First National Bank, Hubbard, Iowa (Insolvent)	36		
First National Bank, Marathon, Iowa (Insolvent)	20		
Rockwell City National Bank, Rockwell City, Iowa (Being liquidated through conservator)	36		
First National Bank, St. Ansgar, Iowa (Insolvent)	29		
Old-Merchants National Bank and Trust Company, Battle Creek, Michigan (Being liquidated through conservator)	1,620		
First National Bank, Rochester, Michigan (Being liquidated through conservator)	120		
Farmers-Merchants National Bank, Princeton, Wisconsin (Being liquidated through conservator)	29		2,058
<u>District No. 8.</u>			
First National Bank, Murray, Kentucky (Insolvent)	76		76
<u>District No. 10.</u>			
Fidelity National Bank & Trust Co., Kansas City, Missouri (Voluntary liquidation, succeeded by Union National Bank in Kansas City)	3,000		3,000
<u>District No. 11.</u>			
Hico National Bank, Hico, Texas (Voluntary liquidation, absorbed by First National Bank of Hico)	60		

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Applications for SURRENDER of Stock: (Continued)District No. 11. (Continued)Citizens National Bank, Llano, Texas
(Insolvent)Shares

	47	107
Total	6,700	

Approved.

Thereupon the meeting adjourned.

Robert Merrill

Secretary.

Approved:

E. R. Black

Governor.