

A meeting of the Federal Reserve Board was held in Washington on Tuesday, December 19, 1933, at 4:00 p. m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Martin, Assistant to the Governor

There were presented three telegrams dated December 19, 1933, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, advising that at the meeting of the board of directors of the bank today, (1) Mr. George J. Schaller was appointed acting governor of the bank to take office as of January 1, 1934, with salary at the rate of \$35,000 per annum, (2) the leave of absence of Mr. J. B. McDougal, Governor, was extended to March 1, 1934, at full salary, and (3) Mr. Charles B. Dunn was appointed General Counsel of the bank to take office January 1, 1934, with salary at the rate of \$12,000 per annum; Mr. Dunn to become a direct employee of, and to give his full time to, the Federal reserve bank. Each of the telegrams requested approval by the Board of the salaries involved in the action of the directors.

After discussion, the Secretary was requested to advise Mr. Stevens that effective January 1, 1933, the Board approves a salary at the rate of \$35,000 per annum, fixed by the board of directors of the bank for Mr. Schaller as acting governor of the bank, it being understood that Mr. Schaller has disposed of the stock of the Citizens First National Bank, Storm Lake, Iowa, and any other bank stock held by him.

12/19/33

- 2 -

The Secretary was also requested to advise Mr. Stevens that, with the understanding that Governor McDougal is being retained only until March 1, 1934, to assist the acting governor in becoming acquainted with his new duties, the Board approves the payment of full salary to Governor McDougal to March 1, 1934.

The telegram with regard to the appointment of Mr. Dunn was referred to the Committee on District No. 7 for recommendation to the Board.

Mr. Hamlin presented the following letter dated December 18, 1933, addressed to him as Chairman of the Committee on District No. 3 by Messrs. Joseph Wayne, Jr., and C. Frederick C. Stout, directors of the Federal Reserve Bank of Philadelphia:

"In response to your suggestion that we submit to you in writing the purport of our interview with Governor Black and yourself on Saturday, December 15th, we submit as follows:

"Your honorable Board has in its records copy of a Resolution relative to the readjustment of the official family of the Federal Reserve Bank of Philadelphia recommended by a special committee of our Board and adopted by this Board on November 15th, 1933, subject to the approval of the Federal Reserve Board at Washington.

(See Exhibit 1)

This report has been presented to your Board by Governor Norris. These recommendations were prepared by this Special Committee after long consideration of the requirements of the Federal Reserve Bank of Philadelphia, as the Directors have felt for some time that the senior officers of the Bank were overworked, were attempting to take on entirely too much responsibility and should have relief.

"We do not feel that this Bank needs strengthening by the addition of an official who has had

12/19/33

- 3 -

"broad practical experience in commercial banking. Our own observations and the reports of the examiners convince us that the business of the Bank is handled satisfactorily at the present time, and what we wish to accomplish is the relief of our overburdened senior officers by the addition of an outside Deputy Governor, also the promotion to that position of our present Cashier and further, the appointment of two new junior officers.

"Under date of December 13, 1933, your Board sent a communication to Governor Norris to the effect that your Board is prepared to give favorable consideration to the appointment of Mr. Sinclair and suggested that we appoint him Deputy Governor and General Counsel, eliminating the necessity for the retention of outside counsel on an annual basis.

"Our objections to the employment of counsel on full time salary basis, located in the Bank, are:

First - We desire Mr. Sinclair to participate in the active management of the Bank and not to devote his time to legal matters only.

Second - Unless he devoted himself to keeping up with current laws and decisions, and brought a law library with him, he would not long be competent to act as counsel. If he did this, he would be almost useless to us as a Deputy Governor.

Third - Under normal conditions, we would not have enough legal business to occupy more than a fraction of his time.

Fourth - Our present arrangement as to legal services is cheap and entirely satisfactory, involving only a retaining fee of \$2,500 per annum, and this we do not wish to alter. In other words, we think it would be a distinct loss to the bank to appoint him general counsel and to attempt to get along without having outside counsel that we could call upon when necessary. Our expenses for legal services in the past years have been extremely small.

(Exhibit 2)

12/19/33

-4-

"The Federal Reserve Bank of Philadelphia is fourth in its number of member banks, and second in capital stock, and its earnings were second in 1932 and have been third for the eleven months of 1933. Its officers' salaries have been kept at a comparatively low figure as you will see by report of officers' salaries paid by Federal Reserve Banks in 1932.

(Exhibit 3)

Philadelphia is practically at the bottom of the list and we feel we are amply justified in requesting your Board to approve the suggestions contained in the resolution adopted by our Board of Directors on November 15, 1933 and which is the subject of this review.

"We feel in recommending the election of Mr. Sinclair that we have secured a business lawyer who is well versed in commercial banking, his firm having specialized in legal work of this character and he should be a very valuable addition to the senior staff of the Bank. We do not feel that the junior officers are at all lacking in their ability to handle the various problems coming to them for consideration as they are all bankers of long standing.

"We would particularly like your Board to give favorable consideration to the suggestions presented by Governor Norris as we have a Board meeting on Wednesday, December 20th, of this week at which time we would like to put through the program effective January first."

Some of the members of the Board expressed the opinion that while they would be inclined to approve the proposed salary at the rate of \$15,000 per annum for Mr. Sinclair as deputy governor of the bank and the annual retainer fee for Williams, Brittain & Sinclair as counsel for the bank, they felt the Board should state to the board of directors its disagreement with the opinion expressed in the above

12/19/33

- 5 -

letter that the bank's official staff does not need strengthening by the addition of an officer who has had broad practical banking experience.

Mr. Hamlin moved that the salary at the rate of \$15,000 per annum fixed by the board of directors of the bank for Mr. Sinclair as deputy governor be approved, effective as of January 1, 1934, and that the Board also approve the fee of \$2,500 fixed by the directors as retainer for the firm of Williams, Brittain & Sinclair as counsel for the bank for the year 1934.

Carried, Mr. Miller voting "no".

Mr. Hamlin then moved that the other recommendations contained in the report of the committee of directors of the bank dated December 1, 1933, be referred to the Committee on District No. 3, for discussion with the board of directors of the bank and for recommendation to the Board, and that the Committee be requested also to discuss with the directors the question of the necessity for strengthening the bank's official staff.

Carried, with the understanding that as soon as convenient, the Committee will go to Philadelphia and take these matters up personally with the board of directors of the Federal reserve bank.

Mr. Morrill stated that, in order to take care of the increased work in the Division of Examinations, Mr. Paulger, Chief of the Division, had requested authority to employ four stenographers, each for a period of not to exceed thirty days, to work from five to eleven p. m. in the evening, with salary at a rate not exceeding \$4.50 per day.

The authority requested was granted.

There was also presented the following letter dated December 15, 1933, from Mr. Case, Chairman of the Federal Reserve Bank of New York:

12/19/33

- 6 -

"I have reported to my board of directors that the Federal Reserve Board has retained Mr. John W. Pole, former Comptroller of the Currency, to make a survey of the banking situation in Porto Rico, with particular reference to the proposed applications for membership in the Federal Reserve System of certain banks in that insular possession, and that the loan of two or three men from this bank has been requested for the purposes of this investigation.

"The directors have expressed their complete willingness to cooperate in this System undertaking, and I have designated Mr. Jacques A. Mitchell, manager of our credit department, and Mr. Eric F. Lamb, research assistant for Latin American affairs in our foreign information division, to accompany Mr. Pole. Mr. Mitchell is thoroughly familiar with bank credit and bank examination matters and should be able to assist Mr. Pole in his study of the banking practices of Porto Rico and in reaching a judgment as to the reciprocal advantages of membership of these banks in the System. Mr. Lamb came to this bank after three years service with the branch of an American bank in Buenos Aires, Argentina, and, as a member of our foreign information division for the past three years, he has been following banking and economic developments in Latin American countries. His knowledge of Spanish-speaking peoples and of the Spanish language, as well as of general economic conditions, should be helpful in the proposed survey of the situation in Porto Rico.

"In addition to these men, if secretarial assistance will be required by Mr. Pole's investigating unit, we shall be glad to lend him another member of our foreign information division, Mr. John C. Albes, who is equipped to do secretarial and stenographic work in Spanish as well as in English.

"I assume that Mr. Pole will arrange to obtain the proper credentials for the men whom I have designated to assist him in order that they may be most helpful to him in his work. Their transportation will be arranged here and, if Mr. Pole would like us to arrange his transportation, we should be glad to do so.

"As to the cost of the services of the men loaned by this bank, or at least, as to their expenditures on the trip to Porto Rico, I have assumed that this will be handled as a System matter, but I shall be glad to be guided on this question by the views of your board."

12/19/33

- 7 -

Mr. Morrill stated that, since the date of Mr. Case's letter, Mr. Pole had discussed this matter further with Mr. Case and advised him that he desired only the services of Messrs. Mitchell and Lamb and that it had been agreed that the salaries and traveling and subsistence expenses of these employees while they are absent from the bank in connection with the trip to Puerto Rico will be paid by the Federal Reserve Bank of New York.

Accordingly, the Secretary was requested to prepare, and hand to Mr. Pole for delivery to Messrs. Mitchell and Lamb, letters advising them that the Board approves their designation by the Chairman of the Federal Reserve Bank of New York to assist Mr. Pole, Special Adviser to the Federal Reserve Board, in making a study of banking and other conditions in Puerto Rico.

Reference was then made to the discussion at the meeting of the Board yesterday with regard to steps which might be taken to expedite action on membership applications, applications by national banks for permission to reduce their capital stock, and applications by national banks for fiduciary powers.

After discussion, the Secretary was authorized until January 1, 1934, to approve, for and on behalf of the Board, all applications of the kind referred to, where the Board's staff agrees that they should be approved and which do not involve any departure from the established policies of the Board with regard to the approval of such applications. It was understood that the authority granted to the Secretary does not include authority to disapprove any application, and that in any case where there is any doubt as to whether the approval of the application would be in accordance with the Board's established policy, the matter is to be taken up with the Board in the usual way.

It was also understood that the approval of applications in this manner and the matters approved by the members of the Board on initials will be recorded each day in minutes, to be prepared by the

12/19/33

- 8 -

Secretary's office, for the approval of the Board.

The Board then considered and acted upon the following matters:

Telegram dated December 19, 1933, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, advising that, at a meeting of the board of directors today, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Letter dated December 18, 1933, to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, approved by five members of the Board, stating that, in accordance with the recommendation contained in his letter of December 9, the Board approves a change in the bank's personnel classification plan to provide for the establishment of a liquidation department and ten new positions in that department.

Approved.

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

Applicant Bank

"Wellesley Trust Company", Wellesley,  
Massachusetts.

Federal Reserve Bank

Boston



12/19/33

<u>Applicant Bank</u>	<u>Federal Reserve Bank</u>
"Peoples Savings Bank & Trust Company", Wilmington, North Carolina.	Richmond
"State Bank & Trust Company", Beeville, Texas.	Dallas
"Union State Bank", East Bernard, Texas.	Dallas

Approved.

Telegraphic reply on December 18, 1933, approved by five members of the Board, to a telegram dated December 15 from Mr. Walsh, Federal Reserve Agent at Dallas; the reply reading as follows:

"Re your wire December 15 regarding application for membership Bay City Bank & Trust Company, Bay City, Texas, Board grants extension to January 15, 1934, within which bank may accomplish its admission to membership. In view of the uncertain circumstances causing the request for extension, you are requested to determine the nature of the developments causing the request for the delay and to advise the Board fully of the circumstances, with your recommendation as to whether, in the light of later developments, the bank should be admitted to membership upon the conditions previously prescribed and before accepting payment for or issuing stock in the Reserve Bank to the applicant you should await further advice from the Board."

Approved.

Telegram to Mr. Curtiss, Federal Reserve Agent at Boston, referring to the application of the "Day Trust Company", Boston, Massachusetts, 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 Day Trust Company, the Federal Reserve Bank of Boston is authorized to cancel such stock and make a refund thereon.

Approved.

- 10 -

12/19/33

Reply to a letter dated December 5, 1933, from Mr. McClure, Federal Reserve Agent at Kansas City; the reply reading as follows:

"Receipt is acknowledged of your letter dated December 5, 1933, regarding your understanding that the office of the Comptroller of the Currency has recently adopted a policy of requiring that any State bank which assumes deposit liabilities of a national bank shall become a member of the Federal Reserve System.

"The Board has not been advised of the adoption of such a policy. However, it is understood that the Comptroller of the Currency desires to be assured that any State bank assuming the deposits of a national bank in the hands of a conservator is in a sound condition and that the interests of the depositors of the national bank are not affected adversely by the transfer of their deposits to the State bank. The Board understands that whether this assurance is obtained by an examination of the State bank by national bank examiners, by certification from the State supervising authorities, by the fact that the State bank is admitted to membership in the System after examination by examiners for the Federal reserve bank, or by general information known to the chief national bank examiner of the district, is a matter to be determined in each instance."

Approved.

Letter to "The First National Bank of Pittsfield", Pittsfield, Maine, reading as follows:

"The Federal Reserve Board approves your application for permission to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Maine, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise the fiduciary powers as set forth above. A formal certificate covering such authorization will be forwarded to you in due course."

Approved.

12/19/33

459

- 11 -

Reply to a letter dated November 15, 1933, from Mr. Stevens,  
Federal Reserve Agent at Chicago; the reply reading as follows:

"Reference is made to your letter of November 15, 1933, inclosing the application of the 'First National Bank of Freeport', Freeport, Illinois, for permission to act in all fiduciary capacities authorized under Section 11(k) of the Federal Reserve Act.

"The Board considered a previous application of this bank and, on October 19, 1933, advised you that in view of the fact that the bank had been in operation only since June 1, 1933, and current information regarding the bank's assets and operations was not available and the further fact that the information concerning the past record of its cashier, who is one of the two active officers in charge of the bank's affairs, was unfavorable, it was unwilling at that time to approve the application.

"Although the recent report of examination indicates that the condition of the bank since reorganization has been satisfactory, there does not appear to be any new information submitted regarding the cashier and the proposed trust officer which would justify approval of the application at this time, and you are requested to advise the institution accordingly."

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 National Safety Bank and Trust Company of New York', New York, New York, from \$1,428,600 to \$714,300, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$300,000 par value preferred stock, and that the funds released by the reduction in common capital stock shall be used to eliminate unsatisfactory assets and depreciation in the amount of approximately \$435,224, to establish a special reserve for losses of \$100,000 and to increase surplus and undivided profits accounts by \$150,000 and approximately \$29,076, respectively, all as set forth in your memorandum of December 6, 1933."

Approved.

12/19/33

- 12 -

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 Second National Bank of Hamilton', Hamilton, Ohio, from \$300,000 to \$120,000, pursuant to a plan which provides for a reduction in the par value of the present common capital stock from \$100 to \$40 per share, the sale at par of \$300,000 par value Class 'A' preferred stock to the Reconstruction Finance Corporation, and the sale at par of \$120,000 par value Class 'B' preferred stock to the present stockholders or others, and that the funds released by the reduction in common capital stock, together with the bank's total surplus and undivided profits of \$215,863, shall be used in eliminating substandard assets and securities depreciation in the amount of approximately \$395,863, all as set forth in your memorandum of December 12, 1933.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted that no provision was made for the elimination of depreciation in the four highest grades of securities amounting to approximately \$99,000, in addition to which there will remain in the bank doubtful items aggregating approximately \$268,700 and slow items amounting to approximately \$672,800. It is assumed, however, that you have these conditions in mind and that whenever it becomes feasible to do so you will obtain such further corrections as may be practicable."

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 Franklin National Bank', Franklin, Ohio, from \$100,000 to \$50,000, pursuant to a plan which provides for a reduction in the par value of the present common capital stock from \$100 to \$50 per share and 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 the bank's surplus and undivided profits of approximately \$40,000, shall be used in eliminating substandard assets and securities depreciation in the amount of approximately

12/19/33

- 13 -

\$90,000, all as set forth in your memorandum of December 11, 1933.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted that no provision was made for the elimination of the remaining depreciation in securities of approximately \$6,740; also that the examiner in his report of examination of the bank as of November 6, 1933, stated that the character of the investment account is such that further depreciation is anticipated and recommended that the bank be permitted to reduce its present common capital stock to \$25,000 in order to accomplish the elimination of a larger amount of securities depreciation. It is assumed, however, that you have these conditions in mind and that whenever it becomes feasible to do so you will obtain such further corrections as may be practicable."

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 Citizens National Bank of Bedford', Bedford, Indiana, from \$150,000 to \$100,000, pursuant to a plan which provides for the sale to the Reconstruction Finance Corporation of \$75,000 par value preferred stock at par and provides also for the use of the released capital funds, together with a portion of the bank's surplus, in eliminating substandard assets of approximately \$95,700, all as set forth in your memorandum of December 6, 1933."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves the reduction in the common capital stock of 'The Arkansas National Bank of Hot Springs', Hot Springs, Arkansas, from \$400,000 to \$100,000 pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$200,000 par value of class 'A' preferred stock to the Reconstruction Finance Corporation and the sale of approximately \$641,000 of the bank's

12/19/33

- 14 -

"assets to the Fidelity Mortgage Loan Company for \$325,000 and that the funds released by the reduction in common capital stock together with the proceeds from the sale of the bank's assets and a portion of its surplus and undivided profits, shall be used to eliminate substandard assets and securities depreciation in the amount of approximately \$641,737, all as set forth in your memorandum, dated December 1, 1933."

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 First National Bank of Stromsburg', Stromsburg, Nebraska, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital 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 applied to the elimination of substandard assets and securities depreciation, all as set forth in your memorandum of December 6, 1933."

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 Albany National Bank, Laramie', Laramie, Wyoming, 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 in eliminating a corresponding amount of substandard assets and securities depreciation, all as set forth in your memorandum of December 5, 1933."

Approved.

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

12/19/33

- 15 -

463

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Green River', Green River, Wyoming, from \$80,000 to \$40,000, pursuant to a plan which provides 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, and that the funds released by the reduction in common capital stock shall be used to eliminate a corresponding amount of substandard assets and securities depreciation, all as set forth in your memorandum of December 5, 1933."

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 First National Bank of Elko', Elko, Nevada, 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 \$100,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock, together with \$50,000 from the bank's present surplus account, shall be used to eliminate substandard assets and securities depreciation in the amount of approximately \$93,605 and to increase undivided profits by approximately \$6,395, all as set forth in your letter of December 8, 1933."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a proposed reduction in the common capital stock of the 'Pacific National Bank of San Francisco', San Francisco, California, from \$1,000,000 to \$500,000 pursuant to a plan which provides for the sale at par of \$500,000 par value preferred stock to the Reliance Securities Company, and that the funds released by the reduction in the common capital stock shall be used to eliminate unsatisfactory assets, all as set forth in your letter dated December 1, 1933."

Approved.

12/19/33

- 16 -

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 First National Bank of Holtville', Holtville, California, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital 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, together with approximately \$6,585 from the bank's surplus and/or undivided profits, shall be used to eliminate substandard assets and securities depreciation in the amount of approximately \$31,585, all as set forth in your letter of December 9, 1933."

Approved.

Telegram to Mr. Newton, Federal Reserve Agent at Atlanta, reading as follows:

"Referring your letter December 15 regarding East Tennessee National Bank, Knoxville, Tennessee, whose holdings of Federal reserve bank stock were canceled March 3, 1933, Board approves issue of 600 shares of stock to the bank effective if and when it is authorized by Comptroller of Currency to reopen for business."

Approved.

Reply to a letter dated November 22, 1933, from Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York; the reply reading as follows:

"In your letter of November 22 you make reference to the Board's letter X-7640 of October 16 and review the policy followed by your bank with reference to the absorption of abrasion loss on gold coin and transportation costs on gold coin and bullion shipped to your bank, and ask the Board whether it does not agree with you that it would be preferable for your bank to continue to absorb abrasion loss on gold coin up to \$1.00 on any one shipment and shipping charges on gold coin and bullion received by your bank from member and par remitting nonmember banks."



12/19/33

- 17 -

"In view of the special circumstances surrounding the gold situation at this time and particularly of the fact that the authority given the Treasury in the Executive Order of April 5 to reimburse the Federal reserve banks in all proper cases for the reasonable cost of transportation of gold coin and bullion delivered to a Federal reserve bank in accordance with Sections 2, 3 and 5 of the Executive Order is not contained in the Executive Order of August 28, Section 11 of which revoked the Executive Order of April 5, and of the fact that the Treasury will not reimburse Federal reserve banks for abrasion on gold coin beyond the usual limit of tolerance, the Board feels that the Federal reserve banks should no longer be expected to absorb abrasion loss on gold coin deposited with them or tendered in exchange for other forms of currency or shipping charges on gold coin or bullion.

"However, the Board has no objection to the absorption by a Federal reserve bank of abrasion and transportation costs in small amounts not exceeding a total of \$1.00 in connection with any one shipment, in view of the expense and inconvenience to the bank of obtaining reimbursement for such small amounts."

Approved.

Letter dated December 18, 1933, to Mr. Hoxton, Federal Reserve Agent at Richmond, approved by five members of the Board, reading as follows:

"The Board has reviewed the report of examination of the Federal Reserve Bank of Richmond as of July 29, 1933, copies of which were left with you and Governor Seay.

"The Board is pleased to note that the recommendations of its examiner (page 16) that audits of the collection and transit departments be enlarged in scope so as to include a control on incoming mail for a period of time subsequent to the date of the audit, and that audits of the Fiscal Agency Department be enlarged so as to provide for a checking of all subscriptions received, have been adopted. On the same page attention is called to the practice of the reserve bank of accepting, without count, currency which has been paid out by it in original packages and received back with the seals and wrapping apparently intact. The Board is in accord with the recommendation of its examiner that such packages should

12/19/33

"be opened when received by the reserve bank and treated in the same manner as other currency forwarded to it for deposit or exchange, and wishes to be advised as to whether the examiner's recommendation has been adopted.

"It is noted (page 19) that compromise settlements made on notes held as collateral to suspended banks' indebtedness have not in the past been recorded in the minutes of meetings of either the Executive Committee or the Board of Directors and the Board is pleased to learn that all compromises, except those of nominal amounts, will be so recorded in the future. On the same page the examiner comments on the careless manner in which the minutes of the Executive Committee meetings are kept, on the fact that the minutes of several meetings were not signed by the secretary, or acting secretary, and that for a period of several days no record was kept showing who attended such meetings. The Board desires to stress the importance of maintaining at all times a complete and permanent record of all meetings, and of submitting the minutes of each meeting to the Board of Directors at its next succeeding meeting as provided for in the bank's by-laws. It is noted that proper and permanent minutes will be kept in the future.

"The examiner calls attention on page 20 to the large number of small safe deposit boxes located in the main vault which are being used by officers and employees of the bank and by two persons not on the institution's pay roll. The Board is in accord with the examiner's views that the number of persons permitted to enter the vault should be reduced to a minimum and that in no case should any individual other than an officer or employee of the bank be given the use of such safe deposit boxes, even though those having access to the vault are properly covered at all times. The examiner has indicated that this matter was being considered further and your comments at this time would be appreciated.

"It is observed on page 21 of the report that the bank has for some time been pledging past due paper with you as collateral to Federal reserve note issues and that on the date of examination such paper amounted to \$329,252.94. The examiner states that this matter was corrected during the course of the examination and the Board wishes to be advised as to the steps taken by you to prevent the pledging in the future of past due paper as collateral to Federal reserve note issues.

"On pages 127, 178 and 186 are listed unadjusted exceptions of long standing appearing on member bank reconciliations of reserve accounts with the Head Office and the

12/19/33

- 19 -

"Baltimore and Charlotte branches. It is noted that practically all of such exceptions are due to entries made at or about the time of the national banking holiday and that requests have been made in each instance for adjustment. In this connection the Board wishes to be advised as to the present status of the debit of \$7,000 made on March 25, 1933, to the account of the Peoples National Bank, Conway, South Carolina (Head Office entry), and the debit of \$1,500 made on March 3, 1933, by the First National Bank, West Jefferson, North Carolina (Charlotte Branch zone), both of these exceptions apparently being subjects of some controversy with the member banks involved.

"The Board is pleased to note that negotiable securities pledged as subcollateral to notes held in custody by the Charlotte Branch for the Reconstruction Finance Corporation will hereafter be reflected on the books of the Branch, under the account 'Liability for Custodies', as recommended by the examiner (page 186), and also that any cash hereafter received for account of the Reconstruction Finance Corporation by the branch will be deposited direct with the receiving teller instead of with the Custody Division as had been the practice.

"It is noted from the custody schedules of the Head Office and of the Baltimore Branch (pages 59 and 170, respectively) that securities are being held in safekeeping for the account of the Bureau of Insular Affairs, Washington, D. C., without authority from the Treasury Department. Such authority should be obtained and kept on file for all securities held in safekeeping by the bank as Fiscal Agent of the Government. It is also noted that securities were being held in safekeeping for the account of various receivers of closed banks, and it will be appreciated if you will advise the Board as to the nature of such safekeeping accounts. In this connection the Board feels that, while there is no objection to retaining the securities held in safekeeping at the time of suspension of a member bank until the receiver has had an opportunity to make other arrangements, new deposits of securities should not be accepted.

"The examiner has commented (page 20) on the number of relatives employed by the bank and particularly in instances where two members of one family are employed in the same department and where an employee of the auditing department has a relative working in a department whose accounts are subject to verification by the bank's auditing staff. It is noted that consideration is being given to the advisability of transferring to another department the

- 20 -

12/19/33

"wife of the manager of the Fiscal Agency Department who at present is working under his immediate supervision, and that consideration is also being given to the recommendation of the examiner that no employee be assigned to the auditing staff who has a relative in any department of the bank subject to audit. The Board will appreciate a report from you setting forth the conclusions reached as a result of the consideration of these matters and would also like to have an expression of your views as to the advisability in general of employing individuals who are closely related to other employees of the bank.

"The Board understands that the question of strengthening the staff of the Auditing Department of the bank was discussed with you by the examiner and an expression of your views as to the desirability of so doing would be appreciated.

"After the report and this letter have received the consideration of the board of directors of the Federal Reserve Bank, the Board would appreciate advice from you as to what action has been taken or will be taken on the matters discussed."

Approved.

Reply to a letter dated October 3, 1933, from Mr. Frederick McDonald, President of the New York State National Bank, Albany, New York; the reply reading as follows:

"Reference is made to your letter of October 3, 1933, in regard to the computation of interest on savings deposits and the suggestion that the Federal Reserve Board prescribe a uniform method of computing interest on such deposits.

"It has been recognized by the Board that as your letter indicates there are a great many methods of computing interest and after careful consideration the Board has reached the conclusion that it should not undertake to prescribe some particular method or methods and prohibit the use of others. Therefore, in the exercise of its authority under section 19 of the Federal Reserve Act the Board has provided in its Regulation 'Q' that no member bank may pay interest on time or savings deposits at a rate in excess of that stated therein regardless of the basis upon which such interest may be computed and leaving

12/19/33

- 21 -

"it open to the banks to select the methods which seem most practicable and desirable from their standpoint within the limit prescribed by the regulation."

Approved.

Reply to a letter dated November 10, 1933, from Mr. J. N. Quinn, Cashier of The First National Bank, Hugo, California; the reply reading as follows:

"Reference is made to your letter dated November 10, 1933, regarding time certificates of deposit issued by you subsequent to June 16, 1933, on which you agreed to pay 4% interest; and inquiring whether, under the rules of your bank governing savings deposits, a copy of which you inclosed, your bank may pay interest on savings deposits up to December 31, 1933, at the rate of 4% per annum.

"Section 19 of the Federal Reserve Act was amended by the Banking Act of 1933 so as specifically to require the Federal Reserve Board to limit by regulation the rate of interest which may be paid by member banks on time deposits. The Banking Act of 1933 was enacted on June 16, 1933, and it follows as a matter of law that the rate of interest which may be paid by a member bank on a time deposit under the terms of any certificate or contract issued or entered into after that date may not exceed the rate as limited by the Federal Reserve Board from time to time pursuant to the statute. The Board in its Regulation Q has limited the rate which may be paid by a member bank on a time deposit for any period subsequent to October 31, 1933, to three per cent per annum compounded semiannually and, accordingly, no member bank may pay interest accruing after the latter date on a time deposit, at a rate in excess of that prescribed in Regulation Q, under the terms of any certificate or contract entered into after June 16, 1933, even though such a certificate or contract may provide for the payment of interest at a rate in excess of that stated.

"In connection with the payment of interest on savings deposits, subsection (c) of Section V of Regulation Q prohibits member banks from paying interest accruing after October 31, 1933, on any savings deposit or part thereof at a rate in excess of 3% per annum compounded

12/19/33

"semiannually, except in accordance with the terms of a contract lawfully entered into in good faith prior to June 16, 1933, and in force on that date and which may not lawfully be terminated or modified by the bank at its option or without liability. No such contract may be renewed or extended unless modified to conform to the requirements of this regulation as to the rate of interest which may be paid; and a member bank is required to take such action as shall be necessary, as soon as possible consistently with its contractual obligations, to bring all such contracts into conformity with the provisions of this regulation. In view of the provisions of sections 9 and 19 of your savings deposit rules permitting your bank to return deposits or to amend the rules upon 30 days' notice, it would appear that your bank may lawfully modify its contract with its savings depositors without liability upon giving the required notice. The Banking Act of 1933 was enacted June 16, 1933, and Regulation Q was adopted August 29, 1933, thus affording ample time to your bank to modify its contracts with its savings depositors before October 31, 1933. Accordingly, such contracts are not of a kind which are within the exception to the prohibition above mentioned.

"Your attention is also invited to Section 6 of your rules governing savings deposits wherein it is provided that interest will be paid from the first day of the month on deposits made on or before the fifth day of such month. In this connection, the Board has held that if the amount of interest paid by a member bank upon any deposit exceeds 3 per cent per annum, compounded semiannually, for the period during which the deposit is actually in the bank, whether by reason of inclusion in the interest period of days prior to the date on which the deposit was made or days after it was withdrawn, the payment is at a rate in excess of that prescribed by the Regulation and in violation thereof. However, interest at a rate less than the maximum prescribed in the Regulation may be paid from the first day of the month on a savings deposit which is actually received thereafter, provided that the amount of interest paid does not exceed three per cent per annum, compounded semiannually, for the period from the date on which the deposit was actually received by the bank until actually withdrawn. It is suggested that your savings deposit rules be modified accordingly.

12/19/33

- 23 -

"For your further information, a copy of Regulation Q is inclosed."

Approved.

Reply, prepared in accordance with the action taken at the meeting on December 13, 1933, to a letter dated December 11 from Mr. Williams, Chairman of the Federal Reserve Bank of Cleveland; the reply reading as follows:

"The Federal Reserve Board has received your letter of December 11, 1933, in which you express concern over the possible loss, because of the prohibitions of Section 8A of the Clayton Act, as amended, of the services of Mr. George D. Crabbs as a Class B director of your bank, and of Messrs. C. N. Manning and Fred A. Geier as directors of your Cincinnati branch, all of whom are also directors of industrial concerns which make loans on stock or bond collateral.

"The very broad language of Section 8A of the Clayton Act has given rise to numerous difficulties, and the Federal Reserve Board has decided to recommend to Congress that this section of the law be amended as soon as possible after Congress convenes in January, so as not to apply to cases such as those referred to in your letter.

"The statute does not take effect until January 1, 1934, and even then it will not apply in the cases referred to unless and until the corporations of which Messrs. Crabbs, Manning and Geier are directors or officers make new loans secured by stock or bond collateral, as the statute clearly applies only to corporations which 'shall make' such loans after January 1, 1934. There is, therefore, a possibility that the statute may be amended so as not to apply to the service of these directors before it ever actually becomes applicable to such service.

"It is noted from your letter that the three directors are men of outstanding position and ability who have rendered long and helpful service in their director relationships to the Federal Reserve Bank of Cleveland, and it is hoped, therefore, that an amendment to the law can be effected before it becomes necessary for them to take any action which might affect their relations with your bank or its Cincinnati branch."

Approved.

12/19/33

- 24 -

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

"The Board has been informed that some of the directors of Federal reserve banks and their branches are serving as directors, officers, employees or partners of non-banking organizations which occasionally make loans secured by stock or bond collateral. As you know, such services are prohibited by Section 8A of the Clayton Act, and the Federal Reserve Board is without authority to issue permits in such cases, as its authority to issue permits with respect to the provisions of the Clayton Act is limited to permits covering the service of banking institutions. In this connection reference is made to the Board's letter of November 10, 1933, X-7677.

"The very broad language of the statute has given rise to numerous difficulties; and the Board has decided to recommend to Congress when it convenes in January that this section of the law be amended as soon as possible so as not to apply to directors of Federal reserve banks and their branches, and also so as not to include organizations which occasionally make loans secured by stock or bond collateral only to their own officers or employees, and organizations engaged primarily in agricultural, commercial or industrial enterprises which occasionally make loans secured by stock or bond collateral only to their own customers.

"As you know, the statute does not take effect until January 1, 1934, and does not apply even then unless and until the other organization which the Federal reserve bank director is serving shall make new loans secured by stock or bond collateral, because the statute clearly refers only to corporations which 'shall make' such loans after January 1, 1934.

"In this connection, attention is also invited to the fact that other sections of the Banking Act of 1933 recognize a clear distinction between loans and other extensions of credit; and Section 8A refers only to organizations which shall make 'loans' secured by stock or bond collateral. Of course, the question whether a particular transaction is a loan within the meaning of the statute, as distinguished from an extension of credit in some other form, is a question to be decided upon the facts of each particular case."

Approved.



12/19/33

- 25 -

Reply to a letter dated December 9, 1933, from Mr. J. G. Klinginsmith, Secretary & Treasurer of the Pennsylvania Bankshares & Securities Corporation, Pittsburgh, Pennsylvania; the reply reading as follows:

"Your letter of December 9, 1933, inquires as to the applicability of Section 32 of the Banking Act of 1933 to certain directors of Pennsylvania Bankshares and Securities Corporation who are directors and officers of banking institutions. As you indicate in your letter the question had already been submitted to the Federal Reserve Board by Mr. Fletcher, Assistant Federal Reserve Agent at Cleveland, and the matter has been under consideration.

"As you know, Section 32 has reference to the business actually transacted by a corporation, rather than the business which it is authorized to transact, and although the Board has been furnished with information regarding the powers of the Corporation under its charter, the information which has been submitted regarding the business actually transacted by the corporation is not sufficiently complete to enable the Board to make a definite ruling upon the question which you have asked.

"However, it would seem from your letter that the sole business actually transacted by the Corporation may be that of a mere holding company owning stock in a group of banks. The Board has ruled, in another connection, that the phrase 'engaged primarily in the business of purchasing, selling or negotiating securities' in Section 32 is not applicable to a corporation whose sole business is that of a holding company holding controlling interest in the stock of other corporations, and in view of the statement contained in your letter that the stocks which your corporation now owns, with one slight exception, comprise nothing but bank stocks which have been held for several years, and that your corporation is not now contemplating the sale of any of these stocks, it would seem that the phrase in Section 32 quoted above might likewise be inapplicable to your corporation, although, as stated above, the information submitted is not sufficiently complete to enable the Board to rule definitely upon the question.

12/19/33

- 26 -

"Incidentally, your letter refers to certain directors of your corporation who are directors and officers of 'banking institutions', but, as you are of course aware, Section 32 has reference only to directors and officers of member banks of the Federal Reserve System."

Approved.

Reply to a letter dated November 16, 1933, from Mr. McClure, Federal Reserve Agent at Kansas City; the reply reading as follows:

"Receipt is acknowledged of your letter of November 16, 1933, inclosing a letter from James E. Goodrich, Vice-President and General Counsel of the Commerce Trust Company, Kansas City, Missouri, who raises the question whether the Keystone Mortgage Investment Company, an affiliate of the Commerce Trust Company, is a securities company within the meaning of Section 20 of the Banking Act of 1933. As you know, Section 20 provides that after one year from June 16, 1933, no member bank shall be affiliated in any manner described in Section 2(b) of the Act with any corporation, etc., 'engaged principally in the issue, flotation, underwriting, public sale or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes or other securities'.

"From Mr. Goodrich's letter, it appears that the Keystone Mortgage Investment Company is engaged 'in servicing outstanding mortgage loans held by sundry investors', including the Commerce Trust Company, and 'in servicing and in otherwise looking after real estate acquired by investors through foreclosure or adjustment with the borrowers of previously existing loans secured by mortgages', in addition to looking after its own assets which consist principally of commission notes, real estate mortgages and real estate. Mr. Goodrich states that it is customary for renewal obligations to be taken in the name of the company and, upon discharge of prior mortgages, for the company to assign the new loans to the investors in lieu of the old. It is understood that the company occasionally negotiates a new loan and sells the same to an investor, but that the gross income received from this source from November 16, 1932, to October 30, 1933, represented only one-third of one per cent of the total gross income of the company. Apparently, the company does not guarantee the payment of principal or interest of the mortgage notes which it handles.

12/19/33

- 27 -

"On the basis of the information furnished, it would not appear that the Keystone Mortgage Investment Company is engaged principally in the issue, flotation, underwriting, public sale or distribution of stocks, bonds, debentures, notes or other securities, or that it is a securities company within the purview of section 20 of the Banking Act of 1933."

Approved.

Reply to a letter dated October 31, 1933, from Mr. E. B. Shadden, Vice President of the Hamilton National Bank, Chattanooga, Tennessee; the reply reading as follows:

"Receipt is acknowledged of your letter of October 31, 1933, in regard to the question whether the Bank of Spring City, Spring City, Tennessee, is an affiliate of the Hamilton National Bank of Johnson City, Tennessee, within the meaning of the Banking Act of 1933. You state that a majority of the stock of the national bank is owned by Hamilton National Associates of Chattanooga, Tennessee, which also owns a majority of the stock of the Bank of Spring City, Spring City, Tennessee.

"Section 2, subparagraph (b), subdivision 2 of the Banking Act of 1933 defines an affiliate as including any corporation of which control is held by the shareholders of a member bank who own or control a majority of the shares of such bank. From the facts presented it appears that the Bank of Spring City is a corporation of which control is held by a shareholder of the national bank, namely, Hamilton National Associates, which owns a majority of the stock of the national bank, and, therefore, that the Bank of Spring City is an affiliate of the national bank within the meaning of the Act.

"For your information, there is inclosed herewith a copy of a ruling which will appear in the Federal Reserve Bulletin for December, 1933, and which sets forth the basis of the position of the Board in respect to the question involved in your inquiry."

Approved.

Reply to a letter dated December 9, 1933, from Mr. C. B. Richardson, Vice President of The Richardson Brothers Company, Cheyenne,

12/19/33

Wyoming; the reply reading as follows:

"Receipt is acknowledged of your letter of December 9, 1933, regarding your qualifications to serve as a director of a national bank.

"You state that you are a director of the Wyoming National Bank of Casper, Wyoming, and that you are also an officer and director of The Richardson Brothers Company, a corporation, that you are a member of the firm of Richardson Brothers, a co-partnership, and that you are a director and officer of the Richardson Trust Association, a common law trust company, all of which organizations at times make loans on collateral and other security. In view of your connection with these organizations, you request to be advised whether you are eligible to continue to serve as a director of the Wyoming National Bank.

"Section 8A of the Clayton Antitrust Act as amended prohibits a director of a national bank from serving after January 1, 1934, as a director, officer, or employee of a corporation (other than a mutual savings bank) or as a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries. You do not state whether the organizations which you mention make loans on the security of 'stock or bond' collateral. If that is true, however, the Section above cited will prevent your serving as a director of the Wyoming National Bank after January 1, 1934, as long as you continue to serve as an officer and director of The Richardson Brothers Company and as a member of the firm of Richardson Brothers. If the Richardson Trust Association is neither a corporation nor a partnership, your service as a director and officer of that association is not prohibited by the section in question, even though such association shall make loans secured by stock or bond collateral.

"Under the provisions of Section 8 of the Clayton Antitrust Act, the Federal Reserve Board is authorized, under certain circumstances, to issue permits covering services of the kinds referred to in Section 8 and 8A of that Act. This authority, however, exists only with respect to banking institutions of certain classes and the Board is without authority to issue permits involving relationships between national banks and non-banking

12/19/33

477

- 29 -

"organizations which come within the provisions of Section 8A. Accordingly, the Board could not, in the present case, issue a permit covering any of the relationships described in your letter.

"In the present connection, it may be noted that Section 8A refers to any corporation which 'shall make' loans of the kind described. There is inclosed a copy of the Board's Regulation L dealing with interlocking directorates and other relationships under the Clayton Antitrust Act, and your attention is directed particularly to paragraph (3) of Section IV(b). Since the statute does not refer to the business which may have been transacted by a corporation or partnership in the past, but refers only to the business currently and presently transacted, the prohibitions of Section 8A are inapplicable to the service of a director of a national bank as a director of a corporation or partnership which in the past has made loans secured by stock or bond collateral, if such corporation or partnership shall make no further loans of that character after January 1, 1934, the effective date of Section 8A."

Approved.

Reply to a letter dated November 24, 1933, from Mr. George P. Rea, Executive Vice President of the Bishop First National Bank of Honolulu, Hawaii; the reply reading as follows:

"Receipt is acknowledged of your letter of November 24, 1933, requesting that the Federal Reserve Board issue permits under the Clayton Act covering the service of several directors of your bank as directors of certain trust companies.

"You point out that in view of the fact that Section 8A of the Clayton Act becomes effective January 1, 1934, and in view of the great distance between Hawaii and Washington, it will be impossible to obtain the necessary application forms and have them filed and acted upon before the effective date of the Act and the annual meeting of the shareholders of your bank on January 9, 1934.

"In order to be in a position to act upon the applications of these directors, it will be necessary for the

12/19/33

478

"Board to be furnished with the information called for by the Board's forms, and the Federal Reserve Agent at the Federal Reserve Bank of San Francisco is being requested to furnish you with the necessary forms for this purpose. The applications should be filed with the Federal Reserve Agent in order that he may attach his recommendation and forward them to the Federal Reserve Board.

"In view of the circumstances referred to in your letter, the Board will not be disposed to take any action with a view to requiring the resignation of the directors involved because of the provisions of the Clayton Act, until they have had an opportunity of submitting applications in proper form. Of course, if permits are then granted on the basis of such applications, the service of these directors will not be within the prohibitions of the Clayton Act."

Approved.

Letters dated December 18, 1933, approved by five members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. R. G. Harte, for permission to serve at the same time as director and officer of the Farmers & Merchants State Bank, Hinckley, Minnesota, and as officer of the First National Bank, Crosby, Minnesota.

Mr. R. J. McRae, for permission to serve at the same time as director and officer of the First National Bank, Graceville, Minnesota, and as director of the First National Bank, Wheaton, Minnesota.

Approved.

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

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 3.</u>		
First National Bank in New Freedom, New Freedom, Pennsylvania	42	42
<u>District No. 4.</u>		
First National Bank in Bellaire, Bellaire, Ohio.	198	
First National Bank at Conneaut Lake, Conneaut Lake, Pennsylvania.	<u>36</u>	234

12/19/33

- 31 -

<u>Applications for ORIGINAL Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 6.</u>		
Jackson National Bank, Jackson, Georgia.	<u>33</u>	<u>33</u>
	Total	309

Approved.

Thereupon the meeting adjourned.

Chas. M. Murrell  
Secretary.

Approved:

E. R. Black  
Governor.