

A meeting of the Federal Reserve Board was held in Washington on Thursday, December 28, 1933, at 3:30 p. m.

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

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Paulger, Chief of the Division of
 Examinations
 Mr. Wingfield, Assistant Counsel.

Governor Black advised Mr. Miller of the action taken by the Board at the meeting yesterday with regard to the application of "The Chase National Bank of the City of New York", for permission to reduce its capital stock, and Mr. Miller stated that he desired to be recorded as voting in favor of approval of the application.

Mr. Morrill stated that there were pending two applications for membership, one from "The Farmers & Merchants Bank & Trust Company", Hannibal, Missouri, and the other from the "Marquette Trust Company", Minneapolis, Minnesota, which were ready for approval except for a question which had arisen as to whether a departure from the policy of the Board adopted in other cases in the past would be warranted. He stated that the question arose out of the fact that in the case of the Farmers and Merchants Trust Company, Hannibal, a building and loan association occupies rooms on a mezzanine floor of the bank, which are accessible from both within and without the bank and in the case of the Marquette Trust Company the banking quarters are occupied on one side of the main lobby by the applicant State bank, on the other side by a national bank, and on a mezzanine floor by a building and loan association, access to all three institutions being

12/28/33

-2-

through a single main entrance to the building from the street. Mr. Morrill stated that in previous cases the Board has required that the occupancy of the same banking quarters be terminated either before admission to membership or within six months thereafter, according to circumstances, but that in the two pending cases the Federal reserve agents had not recommended that such a condition be prescribed and that there were special circumstances which made it desirable that the matter be given special consideration at this time by the Board. He pointed out that if the usual condition were not prescribed it would amount substantially to a reversal of the Board's policy in such matters as the grounds for distinction between these cases and similar cases considered in the past were not very substantial.

A discussion ensued, at the conclusion of which Mr. James moved that the Board adhere to its policy in these cases and that the two applications be approved subject to appropriate conditions covering this matter, in addition to the other conditions recommended by the division of examinations and the legal division.

Carried.

It was also understood that the respective Federal reserve agents would be advised that if The Farmers & Merchants Bank & Trust Company or the Marquette Trust Company raises any question with regard to the condition of membership, the Board will be glad to consider any additional information that they may desire to submit in connection with the matter.

Mr. Morrill stated that the Board had received a number of Clayton Act applications, filed by directors of Federal reserve banks or their branches, for permission to serve such banks or branches and certain other banking institutions, and that it was felt that the applications involve

12/28/33

-3-

certain questions which should be considered carefully by the Board.

After discussion, the applications were referred to the Chairmen of the respective District Committees, with the understanding that the Committees would consider the applications and present their recommendations thereon to the Board at a meeting to be held tomorrow afternoon at 3 p. m.

Mr. James submitted a memorandum dated December 28, 1933, and signed by him as Chairman of the Committee on Salaries and Expenditures, stating that Mr. Smead, Chief of the Division of Bank Operations, had requested that further adjustments in the salaries of Messrs. J. E. Horbett and L. S. Myrick, members of the staff of the Division of Bank Operations, be made from \$5,400 to \$6,000 and \$4,100 to \$4,500 per annum, respectively, effective January 1, 1934, and recommending that, inasmuch as the two adjustments were overlooked in considering other adjustments when the question of salaries for the year 1934 was discussed by the Board at the meeting on December 21, 1933, the adjustments be approved at this time.

Approved.

Governor Black referred to the number of applications for membership in the Federal Reserve System now on file with the Board, and he raised the question as to whether they will all be acted upon by the Board in time to permit the banks to qualify for membership before January 1, 1934. Mr. Paulger stated that he believed that all of the applications now before the Board on which the necessary information is available will be acted upon not later than tomorrow, December 29, 1933, and that he has been assured that, with the exception of one or two banks which had not made application to the Federal Deposit Insurance Corporation for admission to membership in the temporary insurance fund, applications from all of the

12/28/33

-4-

banks in question for admission to the temporary insurance fund will have been considered by the Federal Deposit Insurance Corporation before January 1, 1934.

After a brief discussion, Mr. O'Connor stated that if the Federal Deposit Insurance Corporation is furnished with a list of the banks which have applications for membership in the System on file with the Board on which action has not yet been taken, the Corporation will advise the Board confidentially whether such banks will be admitted to membership in the temporary insurance fund on January 1, 1934.

(Secretary's note: The list of 31 banks whose applications had not been approved by the Board was submitted to Mr. Walter J. Cummings, Chairman of the Federal Deposit Insurance Corporation, and he advised that, with the exception of three banks whose applications apparently had not been received, all banks on the list would be admitted to membership in the temporary insurance fund as of January 1, 1934. With regard to the three banks referred to, the Division of Examinations advised that their applications had been considered by the Division and it was believed they could be acted on by the Board tomorrow, December 29, 1933.)

There was then presented a letter dated December 15, 1933, from Mr. Andrew Welch, San Francisco, California, referring to correspondence with regard to his eligibility under the Clayton Act to serve as a director of a Federal reserve bank, and tendering his resignation as a class C director of the Federal Reserve Bank of San Francisco.

After discussion, Mr. Morrill was requested to address a letter to Mr. Welch similar to that sent to the Chairmen of all Federal reserve banks under date of December 19, 1933, and to call the Federal reserve agent's office at the Federal Reserve Bank of San Francisco on the telephone and request that office to communicate with Mr. Welch and ask him to withhold his resignation pending receipt of the letter.

12/28/33

-5-

The Board then considered and acted on the following matters:

Telegram dated December 27, 1933, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, advising that, at a 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 27, 1933, from Mr. Goldenweiser, Director of the Division of Research and Statistics, transmitting and recommending acceptance by the Board as of the close of business on December 26, 1933, of the resignation of Mrs. Margaret T. Howell, temporary draftsman in the division.

Accepted.

Telegram to Mr. Hoxton, Federal Reserve Agent at Richmond, stating that, subject to the conditions prescribed in the telegram, the Board approves the application of "The Farmers Bank of Nansemond", Suffolk, Virginia, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Richmond.

Approved.

Telegram to Mr. Stevens, Federal Reserve Agent at Chicago, referring to the application of "The Mechanicsville Trust and Savings Bank", Mechanicsville, Iowa, for permission to withdraw immediately from membership in the Federal Reserve System and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal reserve bank stock issued to The Mechanicsville Trust and Savings Bank, the Federal Reserve Bank of

12/28/33

-6-

Chicago is authorized to cancel such stock and make a refund thereon.

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 Paris', Paris, Illinois, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall first be increased by the sale at par of \$75,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock and a portion of the bank's surplus and undivided profits shall be used to eliminate substandard assets in the amount of approximately \$105,000, all as set forth in your memorandum of December 16, 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 Kennewick', Kennewick, Washington, from \$50,000 to \$37,500, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$12,500 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 letter of December 22, 1933."

Approved.

Telegram to Mr. Case, Federal Reserve Agent at New York, stating that the Board has considered the application of the "President and Directors of the Manhattan Company", New York, New York, for a voting permit under authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock

12/28/33

which it owns or controls in "The County Trust Company", White Plains, New York, and has authorized the issuance of a limited permit to the applicant, for the following purposes:

"To elect directors of such bank at the next annual meeting of shareholders, or at any adjournment thereof, at any time prior to April 1, 1934, and to act at such meeting, or at any adjournment thereof, upon such matters of a routine nature as are ordinarily acted upon at the annual meeting of such bank."

Approved.

Telegram to Mr. Curtiss, Federal Reserve Agent at Boston, stating that the Board has considered the application of the "Shawmut Association", Boston, Massachusetts, for a voting permit under authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The Winchester National Bank", Winchester, Massachusetts, "The Merchants National Bank of Salem", Salem, Massachusetts, and the "Needham National Bank", Needham, Massachusetts, and has authorized the issuance of a limited permit to the applicant, subject to the following condition:

"Simultaneously with the issuance of the limited voting permit authorized hereunder, there shall be issued to The National Shawmut Bank of Boston, Boston, Massachusetts, the limited voting permit authorized in the Board's telegram of this date to the Federal Reserve Agent at the Federal Reserve Bank of Boston."

and for the following purposes:

"(1) To elect directors of such banks at the annual meetings of shareholders, or at any adjournments thereof, at any time prior to April 1, 1934, and to act at such meetings, or at any adjournments thereof, upon such matters of a routine nature as are ordinarily acted upon at the annual meet-

12/28/33

-8-

"ings of such banks. (2) To authorize the issuance by The Merchants National Bank of Salem, Salem, Massachusetts, of preferred stock of one or more classes, in such amount and with such par value as shall be approved by the Comptroller of the Currency of the United States, and to make such amendments to its articles of association as may be necessary for this purpose, all in accordance with such plan for the rehabilitation of The Merchants National Bank of Salem aforesaid as shall be approved by the appropriate supervisory authorities and the Federal Reserve Agent at the Federal Reserve Bank of Boston."

Approved.

Telegram to Mr. Curtiss, Federal Reserve Agent at Boston, stating that the Board has considered the application of "The National Shawmut Bank of Boston", Boston, Massachusetts, for a voting permit under authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The Winchester National Bank", Winchester, Massachusetts, "The Merchants National Bank of Salem", Salem, Massachusetts, and the "Needham National Bank", Needham, Massachusetts, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"First. Prior to the issuance of such permit, (a) there shall be delivered to the Federal Reserve Agent at the Federal Reserve Bank of Boston (i) an application on F.R.B. Form P-1, including Exhibit C on F.R.B. Form P-2, executed by the duly authorized officers of the applicant, and (ii) opinion of counsel for the Federal Reserve Bank of Boston that such agreement is in form satisfactory to him and is the valid and binding obligation of the applicant; (b) the Federal Reserve Agent at the Federal Reserve Bank of Boston and the Executive Committee of such bank shall approve the application required hereunder and shall recommend the issuance of a limited voting permit to the applicant for the purposes hereinafter set forth after the letter 'D'. Second. Simultaneously with the issuance of the

12/28/33

-9-

"limited voting permit authorized hereunder, there shall be issued to Shawmut Association, Boston, Massachusetts, the limited voting permit authorized in the Board's telegram of this date to the Federal Reserve Agent at the Federal Reserve Bank of Boston."

and for the following purposes:

"(1) To elect directors of the subsidiary member banks at the annual meetings of shareholders, or any adjournments thereof, at any time prior to April 1, 1934, and to act at such meetings, or any adjournments thereof, upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks. (2) To authorize the issuance by The Merchants National Bank of Salem, Salem, Massachusetts, of preferred stock of one or more classes, in such amount and with such par value as shall be approved by the Comptroller of the Currency of the United States, and to make such amendments to its articles of association as may be necessary for this purpose, all in accordance with such plan for the rehabilitation of The Merchants National Bank of Salem aforesaid as shall be approved by the appropriate supervisory authorities and the Federal Reserve Agent at the Federal Reserve Bank of Boston."

Approved.

Telegram to Mr. Stevens, Federal Reserve Agent at Chicago, stating that the Board has considered the application of the "Riley Corporation", East Chicago, Indiana, for a voting permit under authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The First National Bank in East Chicago", East Chicago, Indiana, and "The Union National Bank of Indiana Harbor at East Chicago", East Chicago, Indiana, and has authorized the issuance of a limited permit to the applicant, for the following purposes:

"To elect directors of each of such banks at the annual meetings of their respective shareholders, or at any adjournments thereof, at any time prior to April 1,

12/28/33

-10-

"1934, and to act at such meetings, or at any adjournments thereof, upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks."

Approved.

Telegram to Mr. Newton, Federal Reserve Agent at San Francisco, stating that the Board has considered the application of the "Tracy Corporation", Salt Lake City, Utah, for a voting permit under authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in the "Tracy Loan and Trust Company", Salt Lake City, Utah, and has authorized the issuance of a limited permit to the applicant, for the following purposes:

"To elect directors of such bank at the annual meeting of shareholders, or any adjournments thereof, at any time prior to April 1, 1934, and to act at such meeting, or any adjournments thereof, upon such matters of a routine nature as are ordinarily acted upon at the annual meeting of such bank."

The telegram stated also that action on the application for a permanent permit is deferred pending a complete examination by the Federal reserve agent's office of the Tracy Loan and Trust Company and the Tracy Corporation for the purpose of establishing an accurate valuation of the assets of both.

Approved.

Telegraphic reply to a letter dated November 1, 1933, from Mr. Curtiss, Federal Reserve Agent at Boston; the reply reading as follows:

"Referring your inquiry November 1 as to whether trusteeship which holds stock of Old Colony Trust Company for benefit of stockholders of First National Bank of Boston

12/28/33

-11-

"is holding company affiliate of Old Colony Trust Company, it does not appear that trusteeship has characteristic attributes of corporation, business trust, association, or other such organization, and, although trustees have power to purchase and sell stock of Old Colony Trust Company it does not appear that they are actually engaged in such dealings. Moreover, it would seem that in general trustees have only such powers as are incidental to holding of stock for benefit of shareholders of national bank aforesaid. In view of foregoing and on basis of information submitted, it does not appear that trusteeship is business trust, association or other similar organization within meaning of Act or subject to provisions of Act applicable to holding company affiliates of member banks."

Approved.

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

"Referring Board's December 22 letter regarding payment of dividends, etc., all reserves set aside by Federal Reserve banks at end of year to cover losses on bills and securities will be shown by Board, in published earnings, expense and profit and loss statements, against caption 'Reserves for losses', without segregation as to amount of reserve set aside on United States Government securities, discounts, and foreign credits and it is suggested that the same caption be used in similar statements issued by your bank."

Approved.

Telegraphic reply to a telegram dated December 26, 1933, from Mr. McKay, Deputy Governor of the Federal Reserve Bank of Chicago; the reply reading as follows:

"In accordance with request contained in your December 26 wire Board authorizes your bank to set aside out of net earnings a self-insurance reserve of \$500,000 or such lesser multiple of \$50,000, as net earnings remaining, after payment of expenses and accrued dividends and provision is made for losses, will permit."

Approved.

Reply to a letter dated December 15, 1933, from Mr. Alfred Kahn, President of the Union Bank, Little Rock, Arkansas; the reply reading as

12/28/33

-12-

follows:

"This refers to your letter of December 15, 1933, addressed to Mr. James, in which you suggest that, in view of the provisions of law relating to the insurance of bank deposits, after January 1, 1934, the trust department of your bank may properly return to the bank the portion of the Government bonds now pledged to secure deposits of trust funds in other departments of the bank for which insurance becomes effective on that date.

"Section 11(k) of the Federal Reserve Act requires that funds deposited or held in trust by a national bank awaiting investment shall be carried in a separate account and 'shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board'. This provision of Section 11(k) was not repealed or qualified by the provisions of the Banking Act of 1933 relating to the insurance of bank deposits and, accordingly, this requirement will still be effective after January 1, 1934, with respect to trust funds of national banks which are used by the banks in the conduct of their business.

"One of the conditions of membership to which your bank agreed at the time of its admission to membership in the Federal Reserve System is as follows:

'If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.'

"It was the intention of the Board in prescribing the condition of membership above quoted in connection with the admission of your bank and other State banks to the Federal Reserve System that they should be subject to the same requirement in this respect as are national banks which exercise fiduciary powers. As the requirement is not changed as to national banks by reason of the insurance of bank deposits the Federal Reserve Board does not feel that it should be modified on that account for State member banks which are subject to the condition in question. You are advised, therefore, that your trust department may not by reason of the provisions for insurance of bank deposits return to the bank any portion of the securities required to be pledged with the trust department under the condition of membership in question."

Approved.

12/28/33

-13-

Memorandum dated December 21, 1933, from Mr. Smead, Chief of the Division of Bank Operations, referring to the consideration given recently to the question of reimbursement of Federal reserve banks by the Treasury Department for fiscal agency expenses, and submitting a proposed letter to the governors of all Federal reserve banks requesting that they furnish the Board with complete information regarding the cost of all fiscal agency and depository functions performed for the Treasury, and detailed figures of costs of handling each class of Treasury operations for the last half of 1933.

The proposed letter was approved.

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

Mr. Charles E. Rieman, for permission to serve at the same time as officer and director of The Western National Bank of Baltimore, Baltimore, Maryland, and as director of the Federal Reserve Bank of Richmond, Richmond, Virginia.

Mr. W. R. Cobb, for permission to serve at the same time as officer of the Citizens Union National Bank, Louisville, Kentucky, and as director of the Louisville branch, Federal Reserve Bank of St. Louis, Louisville, Kentucky.

Mr. Manson F. Backus, for permission to serve at the same time as director and officer of The National Bank of Commerce of Seattle, Seattle, Washington, and as director of the Seattle branch, Federal Reserve Bank of San Francisco, Seattle, Washington.

Approved.

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

12/28/33

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 3.</u>		
Scranton National Bank, Scranton, Pennsylvania.	150	
Yardley National Bank, Yardley, Pennsylvania.	<u>39</u>	189
 <u>District No. 10.</u>		
Citizens National Bank in Independence, Independence, Kansas.	150	
City National Bank & Trust Company of Kansas City, Kansas City, Missouri.	<u>420</u>	570
 <u>District No. 11.</u>		
First National Bank, Alto, Texas.	<u>32</u>	<u>32</u>
	Total	791

Application for ADDITIONAL Stock:

<u>District No. 6.</u>		
First National Bank, DeFuniak Springs, Florida. (Increase in capital through issue of preferred stock, partly offset by decrease in surplus.)	18	18

Approved.

Thereupon the meeting adjourned.

W. Foster K. ...
Secretary.

Approved:

E. R. Black
Governor.

Secretary's Memorandum for the Minutes of December 28, 1933.

There are attached hereto memoranda on two sheets, one headed "Transfer of Gold" and the other bearing no heading, but each having at the bottom of the page the initials "H. O." and the date "12-28-33", both of which are memoranda prepared by Mr. Oliphant, General Counsel of the Treasury, and given to Mr. Walter Wyatt, General Counsel of the Federal Reserve Board, in connection with the discussions regarding the legal questions involved in the possible transfer of gold from the Federal reserve banks to the Treasury referred to heretofore in the minutes of the Board.

Charles Merrill
Secretary

TRANSFER OF GOLD

- (1) All gold coin, bullion and certificates received from others by the Federal Reserve Banks or Branches since March 4, 1933 (except in settlement of foreign balances) shall be turned over to the Treasury immediately and unconditionally; and payment therefor will be made in any coin or currency dollar for dollar or at \$20.67 per ounce as the case may be.
- (2) The Federal Reserve Banks, Branches and Agents will forthwith transfer (subject to the condition subsequent mentioned in (4) below) to the Treasury, possession of, and title to, all other gold coin or bullion owned by them or on deposit with the United States, and will receive therefor gold certificates at the rate of \$20.67 per ounce.
- (3) All gold certificates by whomever held shall be deemed and treated by the Treasury as dollar obligations so that no profit or loss will accrue to any holder thereof as a result of any change in the gold content of the dollar; and they will be secured at all times by 100 per cent deposit of gold pledged as collateral therefor.
- (4) Should the forthcoming session of Congress adjourn without ratification of the transfers above mentioned, and of any change in the gold content of the dollar theretofore made, the absence of such ratification shall operate as a condition subsequent to the transfer mentioned in (2) above, revesting title to the gold so transferred, except as to that portion of such gold as is attributable to profits resulting from any such devaluation; and possession of such gold will be surrendered by the Treasury upon the surrender of the gold certificates received in payment therefor.
- (5) Upon devaluation so much of the gold as is not attributable to profits therefrom will be returned to the Federal Reserve Banks but without agreement express or implied that such gold will not later be called into the Treasury.
- (6) Such administrative acts and recommendations to the Congress as may be necessary for carrying out the foregoing arrangements will be made at the appropriate time.

10

12/28 '33

A statement of the things not covered therein may serve to sharpen the outlines of the tentative plans sketched on the accompanying sheet.

This plan does not extend to any of the following matters:

- (1) The gold status of any gold certificates or the present or future redemption of any gold certificates.
- (2) Any plan for having the gold representing the profit resulting from devaluation returned to the Federal reserve banks or agents in event of devaluation without Congressional ratification.
- (3) Any plan for special treatment of any particular body of gold corresponding to any particular group of gold certificates.
- (4) Any items in any program for legislation relative to the general monetary system, except, of course, the legislative ratification mentioned on the accompanying sheet.

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12/24 '33