

A meeting of the Federal Reserve Board was held in Washington on Tuesday, January 9, 1934, at 10:30 a. 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. Wyatt, General Counsel
Mr. Smead, Chief of the Division of
Bank Operations

Mr. Smead referred to the letters sent by the Federal Deposit Insurance Corporation on January 3 and 5, 1934, to all Federal reserve banks calling for their subscriptions to class B stock of the Corporation in accordance with Section 12B(d) of the Federal Reserve Act, and requesting that at the time of their subscriptions they pay one-half of the amount of such subscriptions and that the remainder be paid on April 15, 1934, and he stated that, inasmuch as some Federal reserve banks have made payment on their subscription, he felt it is desirable that the other Federal reserve banks make the necessary payments before the close of business on January 10, 1934, in order that the weekly statement of condition of Federal reserve banks may show that all Federal reserve banks have effected payment on their subscription, and that, notwithstanding the fact that boards of directors of some of the banks will not meet before then and, consequently, will not have an opportunity formally to consider the matter, he would recommend that a telegram be sent to all Federal reserve banks suggesting that they make the required payment prior to the close of business tomorrow.

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After a discussion, the matter was referred to the Governor with power.

(Secretary's Note: Following the adjournment of the meeting, Governor Black approved a telegram to all Federal reserve banks reading as follows:

"According to advice from Federal Deposit Insurance Corporation your bank was asked on January 3 to subscribe to Class B stock in that Corporation, was authorized on January 5 to credit Treasurer's general account with amount paid in on your subscription, and was advised on January 5 that remainder of its subscription to stock in corporation is called for payment April 15. Press statement showing condition of Federal Reserve Banks on Wednesday January 10 will therefore show subscriptions and stock paid for as stated in Board's wire of December 27, but amount unpaid will be shown against caption 'Called for payment April 15' instead of against caption 'Uncalled.' Corresponding change should be made in item TRAP on Form 34. It would be desirable to have subscriptions all banks appear in condition statement to be issued on Thursday as of Wednesday night. However, if impracticable for your Board to authorize subscription by Wednesday night such subscription may be deferred pending Board action. In any event please wire whether subscription will be made by your bank by close of business Wednesday.")

Mr. Morrill stated that just prior to the close of 1933, Mr. John Kieley, Assistant to the Secretary of the Treasury, delivered to him an envelope containing the draft of letter to the Attorney General and certain other papers in connection with the investigation of transactions in Government securities in the fiscal agency department of the Federal Reserve Bank of Chicago which it had been understood had been unaccountably misplaced in the office of the Secretary of the Treasury, and that Mr. Kieley stated that Mr. Woodin had requested that they be turned over to Mr. Morrill.

Mr. Hamlin referred to the action taken at the meeting of the Board on December 19, 1933, in referring to the Committee on District No. 3 (Messrs. Hamlin and Thomas) certain recommendations of the committee of

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directors of the Federal Reserve Bank of Philadelphia with regard to changes in the official staff of the bank, and he stated that, in this connection, the Committee had reviewed the confidential section of the report of examination of the Federal Reserve Bank of Philadelphia, made by the Board's examiners as of October 21, 1933, which contains references to the officers of the bank, and that the committee would like to have authority from the Board to show this confidential report to the directors of the bank in connection with the discussion with them of the necessity for strengthening the bank's official staff.

During the ensuing discussion, Mr. James moved that it be the sense of the Board that it would be contrary to the best interests of the Federal Reserve System for the Board to permit any one other than members of the Board and members of its staff to see the confidential sections of the reports of examination of Federal reserve banks made by the Board's examiners.

Further discussion followed, during which parts of the confidential section of the report of examination of the Federal Reserve Bank of Philadelphia referred to by Mr. Hamlin were read by Mr. Morrill.

Mr. Hamlin moved, as a substitute for Mr. James' motion, that a copy of the confidential section of the report containing the statements of facts, but deleting therefrom all opinions expressed by the examiner, be circulated among the members of the Board.

Carried.

Mr. Hamlin stated that after the copy of the confidential report has been circulated, he will request the Board to decide whether there is any objection to submitting the copy as changed to the board of directors of the Federal Reserve Bank of Philadelphia for its confidential information.

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The Board then considered and acted upon the following matters:

Memorandum dated January 9, 1934, from Mr. Morrill recommending that the Board approve the appointment of Miss Sarah L. Brissenden as a stenographer in the Secretary's office, with salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties.

Approved.

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

"Your letter January 5. Board approves temporary appointment Sherman Drawdy as examiner in Federal Reserve Agent's Department your bank at salary rate of \$2,700 per annum effective January 16, 1934. It is observed that personnel classification schedule your department provides salary range of \$3,300 to \$3,800 for examiners."

Approved.

Renewal bond in the amount of \$50,000, executed under date of January 2, 1934, by Mr. A. M. McAdams as Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City.

Approved.

Letter to Mr. Newton, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"In response to your letter of January 3, 1934, you are advised that the Federal Reserve Board has approved the payment of a fee of \$1,400 to Messrs. Merrick, Schwarz, Guste, Barnett and Redmann for legal services rendered to the New Orleans Branch of the Federal Reserve Bank of Atlanta from July 1, 1933, to December 30, 1933, such fee having previously been approved by the Executive Committee of the New Orleans Branch, by the Executive Committee of the Federal Reserve Bank of Atlanta, and by Mr. Robert S. Parker, General Counsel to the Federal Reserve Bank of Atlanta."

Approved.

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Telegram to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Re Sargent's wire January 5, 1934 regarding application First Security Bank of Idaho, Boise, to establish branch at Shelley, Idaho. Before considering application Board should have before it information regarding condition of applicant as developed through a thorough current examination, the present banking facilities at Shelley and need for the branch, evidence of approval of the State authorities for the establishment of the proposed branch together with your comments and recommendation."

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 Lancaster', Lancaster, New York, from \$300,000 to \$75,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$200,000 preferred stock, of which \$100,000 par value Class A preferred stock is to be sold to the Reconstruction Finance Corporation and \$100,000 par value Class B preferred stock is to be sold to present stockholders or others; and that the funds released by the reduction in common capital stock, together with at least \$100,000 from the bank's surplus and undivided profits, shall be used in eliminating substandard assets and depreciation in investment securities, all as set forth in your memorandum of December 28, 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 securities depreciation amounting to approximately \$70,431, of which approximately \$42,543 is in the lower grades, the total of depreciation remaining in the bank after the proposed adjustments being sufficient to impair the bank's common capital to the extent of approximately \$55,000. In addition there will remain \$46,372 in doubtful assets and \$258,870 in slow assets. 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

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"Board approves a reduction in the common capital stock of 'The First National Bank of Danville', Danville, Indiana, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$50,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock shall be used to eliminate substandard assets in the amount of approximately \$42,000, and to increase the surplus by approximately \$8,000, all as set forth in your memorandum of December 26, 1933."

Approved.

Telegram to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, stating that the Board has considered the application of the "Hamilton National Associates, Incorporated", Chattanooga, Tennessee, 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 following banks:

"The Hamilton National Bank of Johnson City", Johnson City, Tennessee,
 "The First National Bank of Cartersville", Cartersville, Georgia,
 "The First National Bank of Loudon", Loudon, Tennessee,
 "The Hamblen National Bank of Morristown", Morristown, Tennessee,
 "The First National Bank of Pikeville", Pikeville, Tennessee,
 "The First National Bank of South Pittsburg", South Pittsburg, Tennessee,
 "First National Bank in Harriman", Harriman, Tennessee,
 "The First National Bank of Lenoir City", Lenoir City, Tennessee,
 "The Hamilton National Bank of Chattanooga", Chattanooga, Tennessee,

and has authorized the issuance of a limited permit to the applicant, subject to the following condition:

"Prior to the issuance of such permit applicant shall agree
 "(a) That within such time as shall be fixed by the Federal

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"Reserve Agent at the Federal Reserve Bank of Atlanta, and in any event prior to April 1, 1934, the undersigned will cause its subsidiary member and nonmember banks to rehabilitate their respective capital structures by means of voluntary contributions and/or issuance of new common stock and/or preferred stock or otherwise in respective aggregate amounts which shall be satisfactory to the appropriate supervisory authorities and to the Federal Reserve Agent at the Federal Reserve Bank of Atlanta, and will cause such subsidiary banks to charge off or otherwise eliminate (1) estimated losses in loans and discounts, (2) depreciation in stocks and defaulted securities, (3) depreciation in securities not of the four highest grades as classified by an investment service organization regularly engaged in the business of rating or grading securities, and (4) all other losses, such charge-offs or eliminations to be based on current examinations or credit investigations and to be of such nature and in such amounts as shall be satisfactory to the appropriate supervisory authorities and to the Federal Reserve Agent at the Federal Reserve Bank of Atlanta, all in accordance with such plan or plans for the rehabilitation of such subsidiary banks as shall be satisfactory to the appropriate supervisory authorities and to the Federal Reserve Agent at the Federal Reserve Bank of Atlanta;

"(b) That all assets of such subsidiary banks which may be charged off or otherwise eliminated pursuant to the foregoing paragraph of this agreement will remain the property of such subsidiary banks respectively and will not be distributed to the shareholders of the undersigned or of any of such subsidiary banks or otherwise released in any manner whatsoever;

"(c) That it will cause such subsidiary banks to correct all items, operating practices, policies and matters relating to their respective financial condition or management which have been criticized by the appropriate supervisory authorities or by the Federal Reserve Agent at the Federal Reserve Bank of Atlanta;

"(d) That it will cause such subsidiary banks to eliminate, or initiate the reduction pursuant to a program calling for the regular periodic retirement in substantial amounts of, all loans and advances made by each such bank to the undersigned and/or to any of its subsidiaries or other affiliated organizations, and also all loans and advances secured by, and all investments in stocks or obligations of, the undersigned and/or any of its subsidiaries or other affiliated organizations",

and for the following purposes:

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

"2. To act, at any time prior to April 1, 1934, upon a proposal

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"or proposals to authorize an increase in the capital funds of each such bank and to do all things necessary for such purpose, provided that such proposal or proposals shall be in accordance with a plan or plans which shall be satisfactory to the Comptroller of the Currency and the Federal Reserve Agent at the Federal Reserve Bank of Atlanta."

The telegram stated also that, prior to the issuance of a permit entitling the applicant to vote on a proposal to reduce the capital stock of any of its subsidiary member banks, the details of the plan or plans for such reduction should be submitted to the Comptroller of the Currency and the proposed reduction should be approved by the Comptroller of the Currency and by the Federal Reserve Board, and that the agent is authorized to amend the standard form of permit by adding after the name of the grantee the words "or its nominee". The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the Hamilton National Associates, Incorporated, a limited voting permit in accordance with the telegram when the condition prescribed in the telegram has been complied with.

Approved.

Letter to Mr. Robert C. Zecher, President of The Lancaster County National Bank, Lancaster, Pennsylvania, reading as follows:

"Your letter of September 7, 1933, addressed to the Comptroller of the Currency, regarding certain provisions of the Federal Reserve Board's Regulation Q, has been referred to the Federal Reserve Board for reply.

"Your first question relates to a time certificate of deposit payable one year from date, but having the following clause printed on its face:

'In order to comply with the provisions of the Federal Reserve Act relative to time deposits, this bank reserves the right to require thirty days' written notice of withdrawal.'

You request to be advised whether such a certificate may be considered a time certificate of deposit for reserve purposes

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"until actually paid, and whether interest may be paid on such certificate up to the date of its maturity. Without an opportunity to examine a copy of the certificate of deposit in question the Board is unable to advise you definitely whether the certificate conforms to the definition of a time certificate of deposit contained in Regulation D or Regulation Q. Assuming, however, that the certificate complies in other respects with the requirements of the regulations on this subject and that a definite maturity is provided in the certificate one year after the date of the deposit, it constitutes a time certificate of deposit as defined in Regulation Q and interest may be paid thereon in accordance with that regulation until the date of maturity; and, in view of the reservation by the bank of the right to require thirty days' written notice of withdrawal, a deposit represented by such a certificate may properly be classified as a time deposit within the meaning of Regulation D relating to reserve requirements until such deposit is actually paid. After maturity, however, the certificate is one with respect to which the bank merely reserves the right to require thirty days' written notice before payment and, as stated in footnote 4 of Regulation Q, while such a certificate may be classified as a time deposit for computing reserves, interest may not be paid thereon for the reasons there stated. Accordingly, if a deposit represented by such a certificate is not paid at the maturity specified therein, no interest accruing thereafter may lawfully be paid on such deposit but it may be classified as a time deposit for computing reserves until actually paid.

"Attention is invited to the fact, however, that the phrase 'in order to comply with the provisions of the Federal Reserve Act relative to time deposits' contained in the above-quoted provision of your certificate is not entirely accurate; for even without the provision in question a deposit represented by a time certificate payable one year after date would constitute a time deposit within the meaning of Regulation Q until maturity and within the meaning of Regulation D until thirty days prior to maturity.

"You also inquire whether your bank may lawfully pay interest at the rate of 4 per cent per annum on time certificate of deposit issued by you subsequent to June 16, 1933. 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 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

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"October 31, 1933 to 3 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 certificate or contract may provide for the payment of interest at a rate in excess of that stated.

"In this connection, it is suggested, in order that depositors may have actual knowledge that the rate of interest stated in your time certificates of deposit is subject to such modification as may be necessary to conform to the rate on time deposits as limited or prescribed by the Federal Reserve Board from time to time under the law, that you include in certificates hereafter issued a provision substantially in the following form:

'The rate of interest payable hereunder is subject to change by the bank to such extent as may be necessary to comply with requirements of the Federal Reserve Board made from time to time pursuant to the Federal Reserve Act.'

"With reference to your third question, the Federal Reserve Board is of the opinion that since a member bank is forbidden by law to pay interest on a deposit which is payable on demand, it may not lawfully pay interest for the period intervening between the maturity date of a certificate of deposit and the date on which a renewal certificate of deposit is actually issued, even though such renewal certificate is dated back to the date of maturity of the original certificate.

"You further request to be advised under what conditions a loan to the owner of a time deposit will be deemed to be made 'in good faith.' As you know, footnote 7 under Section IV of Regulation Q provides that the making of a loan to the owner of a time deposit by a member bank for the purpose of evading the prohibition upon the payment of a time deposit by a member bank before its maturity will, to the extent of such loan, be deemed to be a payment of such deposit in violation of the prohibition. It is not believed that any general rule can be prescribed as to whether a loan is made in good faith or for the purpose of evading the prohibition in question; and each case should be determined on the basis of its own particular facts. It would not be practicable for the Federal Reserve Board to undertake to determine in individual cases questions submitted to it by member banks as to whether loans made in particular circumstances are loans for the purpose of evading the prohibition upon the payment of a time deposit by a member bank before its maturity; and the Board feels that these are questions upon which each member bank should exercise its best judgment in the light of the provisions of the law and the regulation. As indicated in the regulation, in any case in which a loan is made to the owner of a time deposit by a member bank, the bank must be prepared to show clearly that it was made in good faith and

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"not for the purpose of evading such prohibition."

Approved.

Letter to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of October 30, 1933, regarding the use of time certificates of deposit which are 'payable six or twelve months after date'. You state that it has been your practice to discourage the use of certificates of deposit having alternative maturity dates on the ground that the use of such certificates would appear to have the practical effect of defeating that provision of Section 19 of the Federal Reserve Act as amended which prohibits the payment of time certificates of deposit before maturity.

"The law provides that time deposits shall include deposits payable after thirty days. A time certificate of deposit payable thirty days after date may lawfully be renewed by action of the parties at the expiration of such period for an additional thirty days and will constitute a time deposit during such additional period; and there appears to be no reason under the law why the original contract governing a time deposit payable at the expiration of thirty days may not provide for its automatic renewal for a like period if withdrawal does not then take place. In either case it would seem that the requirement of the law is met. The same principle is applicable, of course, to deposits payable six months after date. In this connection, your attention is invited to the Board's ruling regarding deposits of postal savings funds contained in its letter of November 18, 1933 (X-7687).

"Accordingly, it is the view of the Federal Reserve Board that a certificate of deposit which by its terms, if not paid at the expiration of six months from date, is automatically renewed for an additional six months would constitute a time deposit within the meaning of Regulation Q during such additional six months' period, provided, of course, that it complies in other respects with the requirements of the regulation as to time deposits."

Approved.

Letter to Mr. Worthington, Deputy Governor of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letters of October 19, and December 16, 1933, requesting the advice of the Federal Reserve Board with respect to whether a certificate of deposit inclosed by you

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"conforms to the requirements of a time certificate of deposit as defined in the Board's Regulation Q and its Regulation D.

"It is assumed that your inquiry now relates only to the certificate of deposit which was inclosed with your letter of December 16. The certificate in question is payable on a specified date (which it is assumed will not be less than 30 days after the date of the deposit) with the additional provision that the bank reserves the right at its option to require 30 days' written notice of withdrawal either before or after maturity. Inasmuch as the certificate may not be paid before its maturity and the bank may at its option require 30 days' written notice before payment whether made on the date of maturity or thereafter, a deposit represented by such a certificate may properly be classified as a time deposit within the meaning of Regulation D until such deposit is actually paid; and, since a definite date of maturity is provided in the certificate not less than 30 days after the date of deposit, it conforms to the definition of a time certificate of deposit contained in Regulation Q and interest may be paid thereon in accordance with that regulation until the date of maturity. After maturity, however, the certificate is one with respect to which the bank merely reserves the right to require 30 days' written notice before payment and, as stated in footnote 4 under Section III(a) of the regulation, such a certificate may be classified as a time deposit for computing reserves but for reasons there stated interest may not be paid thereon. Accordingly, if a deposit represented by such a certificate is not paid at the maturity specified therein, no interest accruing thereafter may lawfully be paid on such deposit although, as stated, it may be classified as a time deposit for computing reserves until actually paid.

"Inasmuch as the certificate may not be paid in any event before maturity, it is believed that the provision reserving the right to the bank to require 30 days' written notice of withdrawal at any time before maturity is somewhat confusing and the member bank using such certificate may wish to consider changing that part of the certificate so as to state that the bank reserves the right at its option to require 30 days' written notice before any withdrawal whether made at or after maturity."

Approved.

Letter to an applicant for a permit under the Clayton Act, advising of approval of his application as follows:

Mr. Morton M. Prentis, for permission to serve at the same time as officer and director of the First National Bank of Baltimore, Baltimore, Maryland, and as director of the Baltimore branch, Federal Reserve Bank of Richmond, Baltimore, Maryland.

Approved.

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

<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 3.</u>		
First National Bank, Birdsboro, Pennsylvania (Being liquidated through conservator)	150	
Clementon National Bank, Clementon, New Jersey (Being liquidated through conservator)	72	
Dickson City National Bank, Dickson City, Pennsylvania (Being liquidated through conservator)	120	
First National Bank & Trust Company, Frackville, Pennsylvania (Being liquidated through conservator)	162	504
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<u>District No. 4.</u>		
First National Bank, Beaver Falls, Pennsylvania (Being liquidated through conservator)	270	
First National Bank, Conneaut Lake, Pennsylvania (Being liquidated through conservator)	78	
First National Bank, Conneautville, Pennsylvania (Being liquidated through conservator)	39	
First National Bank, St. Clairsville, Ohio (Being liquidated through conservator)	180	567
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Total		1071

Approved.

Thereupon the meeting adjourned.

Chester H. Dornier
Secretary.

Approved:

E. R. Black
Governor.