

A meeting of the Federal Reserve Board was held in Washington on Wednesday, January 10, 1934, at 3:00 p. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary

The Board considered and acted upon the following matters:

Telegram dated January 10, 1934, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, 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.

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

"Your letters January 8. Board approves temporary appointment of Charles W. Snyder and Carl B. Baldt as assistant examiners in Federal Reserve Agent's department your bank at salary rate of \$3,000 per annum each, effective upon assuming duties, with understanding Mr. Snyder will continue systematic reduction of indebtedness to Pennsylvania banks. Please advise effective dates."

Approved.

Letter to the board of directors of the "Gentry County Bank", Albany, Missouri, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved.

Telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

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"In accordance with your recommendation the Board approves the application for membership of the 'United Bank of Farmington', Farmington, Missouri, subject to the changes in the proposed plan of organization as outlined in your telegram of January 8, 1934, and subject to the following revision of the conditions of membership prescribed in the Board's letter of December 21, 1933, condition numbered ten revised to read as follows:

'10. Such bank, until its surplus account shall be equal to at least 20 per cent of its capital stock, shall carry to its surplus account annually, or for any shorter period covered by each closing of its books, 50 per cent of its net earnings for any such period after providing reserves for depreciation and deducting all losses, and if at any time thereafter the surplus of such bank is less than such prescribed minimum amount, it shall be increased at least to that amount in like manner. No dividends shall be paid at any time from the surplus account unless such surplus account shall be in excess of 20 per cent of the capital stock of such bank, and no dividends shall be paid which will reduce the surplus account below 20 per cent of the capital stock.'

Condition numbered sixteen revised to read as follows:

'16. Such bank, at the time of its admission to membership, shall have unimpaired capital stock of not less than \$120,000, of which not more than \$60,000 may be preferred stock, and shall have an unimpaired surplus of not less than \$20,000.'

"The proposed changes referred to in your telegram will not be considered as constituting a violation of the part of condition numbered seventeen requiring that at the time of admission the bank shall have assets and liabilities substantially the same in amount and character as shown in the pro forma statement submitted by the Federal Reserve Agent in connection with the application."

Approved.

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

"Refer your wire January 8, 1934 re application Farmers and Merchants State Bank of Sacred Heart, Sacred Heart, Minnesota. Board grants extension of time to February 8, 1934 within which the bank may comply with conditions of membership. The application for membership was approved November 10, 1933, and in view of the lapse of time since the date of examination on which the charge-off or elimination of assets was originally prescribed, an additional condition of membership has been prescribed as follows:

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"19. Prior to admission to membership, such bank, without reducing its capital below \$35,000 or its surplus below \$7,000, shall, in addition to the items listed in condition numbered seventeen contained in the Board's letter of November 10, 1933, based on the report of examination of the bank as of August 26, 1933, charge off or otherwise eliminate all other known losses and all depreciation in stocks, defaulted securities, and in securities other than those in the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities.

"Please advise the bank accordingly."

Approved.

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

"The Federal Reserve Board approves a reduction in the common capital stock of 'The Liberty National Bank and Trust Company of Savannah', Savannah, Georgia, from \$600,000 to \$300,000, 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 to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock shall be used to eliminate substandard assets and securities depreciation, all as set forth in your letter of January 5, 1934."

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 Greenup National Bank', Greenup, Illinois, 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 and a voluntary contribution from shareholders in the amount of approximately \$6,000 shall be used to eliminate substandard assets and depreciation in securities, and to create a surplus of \$10,000, all as set forth in your memorandum of January 2, 1934."

Approved.

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

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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 Michigan City', Michigan City, Indiana, from \$125,000 to \$62,500, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$62,500 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock, together with funds in the amount of approximately \$61,600 to be made available by a voluntary cash contribution, shall be used to eliminate a corresponding amount of substandard assets, all as set forth in your memorandum of January 3, 1934. It is understood from the Reconstruction Finance Corporation examiner's report that further eliminations amounting to approximately \$6,000 are to be made by using a portion of the bank's undivided profits for that purpose, and such eliminations, if approved by you, also meet with the approval of the Board.

"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 a strengthening of the management although the examiner states that the present management lacks the aggressiveness to initiate needed corrective measures, and Chief National Bank Examiner Taylor states that the management is deplorably weak and has little conception of sound credits. It is assumed, however, that this matter is receiving the attention of your office."

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 Waseca', Waseca, Minnesota, from \$100,000 to \$50,000, pursuant to a plan of rehabilitation 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 and funds in the amount of \$25,000 to be obtained through a local contribution of that amount shall be used to eliminate substandard assets and depreciation in securities, all as set forth in your memorandum of January 4, 1933.

"In considering the plan under which the reduction in common capital stock is to be effected it was noted that the national bank examiner in his report of examination made as of May 18, 1933, subjects the management to severe criticism, stating in his report that 'I do not anticipate (the bank's) affairs will ever be placed in much better condition than at present shown, unless a change in

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"the management is made.' It is assumed, however, that this matter is receiving the attention of your office."

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 in Ada', Ada, Oklahoma, 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 a corresponding amount of substandard assets and securities depreciation, all as set forth in your memorandum of December 29, 1933.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted that the bank's application provides that 'no money is to be returned to the shareholders but assets to the amount of the reduction are to be withdrawn from the bank and trusted for the benefit of shareholders at date of reduction'. Inasmuch as the shareholders (86% of whose stockholdings in the bank are those of President Norris and his relatives) will be relieved of an assessment liability of \$50,000, the Board feels that the assets to be eliminated through the reduction in capital should not be trusted for the benefit of shareholders but that such assets should remain the property of the bank, and the Board's approval is given with the understanding that the proposed plan will be modified accordingly. This provision seems particularly desirable in view of the fact that President Norris, who dominates the bank's board of directors and is subject to severe criticism by your examiner, appears to be financially involved and to have used the bank unduly to further his personal interests, and would be the principal beneficiary of any recoveries from the eliminated assets should such assets be trusted for the stockholders."

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 'San Angelo National Bank of San Angelo', San Angelo, Texas, from \$400,000 to \$200,000, pursuant to a plan which provides that the

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"bank's capital shall be increased by the sale at par of \$200,000 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 \$167,584, and to increase the surplus and undivided profits by approximately \$32,416, all as set forth in your letter of January 5, 1934."

Approved.

Letter to the chairmen and governors of all Federal reserve banks, reading as follows:

"The authority granted by the Federal Reserve Board to all Federal reserve banks in its circular of July 26, 1932 (X-7215a), as amended by its letter of July 14, 1933 (X-7497), to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and that circular, will expire at the close of business on January 31, 1934. The Board has decided to extend such authorization for an additional six months, and, accordingly, has amended section II of its circular of July 26, 1932 (X-7215a), to read as follows:

'AUTHORIZATION BY THE FEDERAL RESERVE BOARD.

The Federal Reserve Board, pursuant to the power conferred upon it by the amendment hereinbefore quoted, hereby authorizes all Federal reserve banks, for a period ending at the close of business on July 31, 1934, to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular."

Unanimously approved.

Letter to Mr. Charles R. Creal, Cashier of The First National Bank, Buffalo, Kentucky, reading as follows:

"This refers to your letter of October 11, 1933, presenting certain questions in regard to the payment of interest by member banks on time certificates of deposit.

"You state that your bank prior to June 16, 1933, issued certificates of deposit bearing 4% interest and payable 'six or twelve months from date'; and you request to be advised whether, if such certificates are allowed to continue for the 12 months' period, you may lawfully pay the rate of interest provided in the certificate until the expiration of such 12 months.

"Without an opportunity to examine a certificate of deposit of the kind in question, the Board is unable to answer your inquiry

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"definitely. However, if the certificate is one which was lawfully issued prior to June 16, 1933 and in force on that date, and which may not legally be terminated or modified by the bank at its option or without liability, interest may be paid by the bank for the entire twelve months' period at the rate prescribed in the certificate in the event that the certificate is not paid upon demand of the holder at the expiration of the first six months' period.

"You further request to be advised whether you may lawfully pay interest at the rate of 4% on time certificates of deposit issued by you on and after August 29, 1933, provided you do not pay interest at a rate in excess of 3% on such certificates after October 31, 1933. Section III(c) (1) of the Board's Regulation Q provides that no member bank shall pay interest, accruing after October 31, 1933, on any time deposit or any part thereof at a rate in excess of 3% per annum, compounded semi-annually. This provision does not limit the rate of interest which may be paid on a time deposit for any period prior to October 31, 1933, regardless of the date of issuance of the certificate of deposit.

"For your further information in connection with this matter, a copy of the Board's Regulation Q is inclosed herewith."

Approved.

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

"In connection with a number of applications under the Clayton Act which have been submitted to the Board recently, it has been noted that only partial answers have been made to question No. 11 on Form 94b, 'Report of Federal Reserve Agent'. That question calls for information as to (a) the condition of each of the banks involved in the application located in your district, (b) the character of the management of each of such banks, and (c) the extent of the applicant's responsibility therefor in the case of each of such banks. One or more of these items have not been covered in several cases. Your particular attention is directed to item (c), which is of special importance. The information called for by question No. 11 should be furnished respecting non-member banks as well as member banks involved in the application. In view of the fact that the Board is authorized to grant a permit only if in its judgment it is not incompatible with the public interest, the information called for is necessary with respect to all of the banks involved in the application in order that the Board may be in a position to determine whether a permit should be granted.

"It has also been found, occasionally, that an applicant who is serving as officer and director of a particular bank applies for a permit covering his service as director only, or as officer

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"only. The Board usually will not issue permits covering services other than those named in the application, and it is therefore suggested that, if in any case you find that the application does not specify all the positions in which the applicant desires to serve, you obtain the proper amendment to the application before it is submitted to the Board."

Approved.

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

Mr. W. E. Henley, for permission to serve at the same time as director and officer of the Birmingham Trust & Savings Company, Birmingham, Alabama, and as director of the Birmingham branch, Federal Reserve Bank of Atlanta, Birmingham, Alabama.

Mr. C. N. Bassett, for permission to serve at the same time as officer and director of The State National Bank, El Paso, Texas, and as director of the El Paso branch, Federal Reserve Bank of Dallas, El Paso, Texas.

Approved.

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

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 4.</u>		
First National Bank in Tarentum, Tarentum, Pennsylvania	105	105
<u>District No. 6.</u>		
Union National Bank of Fayetteville, Fayetteville, Tennessee	72	72
<u>District No. 11.</u>		
First National Bank in Falfurrias, Falfurrias, Texas	36	
Cleburne National Bank, Cleburne, Texas	111	147
	<u>Total</u>	<u>324</u>
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 7.</u>		
National Trust Bank, Charleston, Illinois (Being liquidated through conservator)	156	
Merchants National Bank, Galena, Illinois (Insolvent)	90	

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Applications for SURRENDER of Stock: (Continued) SharesDistrict No. 7. (Continued)

Peoples National Bank, Monmouth, Illinois (Insolvent)	60	
First National Bank, Naperville, Illinois (Being liquidated through conservator)	90	
First National Bank, Sheridan, Illinois (Insolvent)	18	
First Sterling National Bank, Sterling, Illinois (Being liquidated through conservator)	180	
First National Bank, Boswell, Indiana (Insolvent)	41	
Citizens National Bank, Franklin, Indiana (Being liquidated through conservator)	90	
Citizens National Bank, South Bend, Indiana (Being liquidated through conservator)	600	
First National Bank, Chelsea, Iowa (Insolvent)	38	
First National Bank, Jewell Junction, Iowa (Insolvent)	30	
Villisca National Bank, Villisca, Iowa (Being liquidated through conservator)	45	
First National Bank, Brighton, Michigan (Insolvent)	26	
First National Bank, Eaton Rapids, Michigan (Being liquidated through conservator)	39	
First National Bank, Utica, Michigan (Being liquidated through conservator)	45	1,548

District No. 9.

First National Bank, Lake Crystal, Minnesota (Being liquidated through conservator)	45	45
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District No. 10.

First National Bank, Mancos, Colorado (Insolvent)	45	
First National Bank, Litchfield, Nebraska (Insolvent)	48	93

District No. 11.

First National Bank, May, Texas (Voluntary liquidation, no successor)	21	
First National Bank, Gibsland, Louisiana (Insolvent)	15	36

District No. 12.

First National Bank, Clatskanie, Oregon (Being liquidated through conservator)	37	37
Total		1,759

Approved.

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Thereupon the meeting adjourned.

C. Lester Morris
Secretary.

Approved:

E. R. Black
Governor.