

A meeting of the Federal Reserve Board was held in Washington on Thursday, January 11, 1934, at 2:00 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:

Telegrams dated January 11, 1934, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, and Mr. McClure, Chairman of the Federal Reserve Bank of Kansas City, both advising that, at meetings of the boards of directors today, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated January 10, 1934, from Mr. Wyatt, General Counsel, recommending that the temporary appointment of Mr. Ralph S. Tyler as Special Assistant Counsel be extended for one additional month commencing January 11, 1934, with salary at the rate of \$500 a month, and with the understanding that Mr. Tyler is not to be compensated for traveling or living expenses.

Approved.

Letter to Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, stating that, in accordance with the recommendation contained in his letter of January 5, 1934, the Board approves a change in the personnel classification plan of the bank to provide for an increase from \$3,500 to \$4,100 per annum in the salary of Mr. John H. Hartley as Chief, Credit Division, Credit Department, an appraised

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position.

Approved.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of Mr. Dillistin's letter of January 4, 1934, inclosing, in connection with the application of The Mount Vernon Trust Company for membership in the Federal Reserve System, certain papers with regard to the pending suits of Henry M. Kahle v. The Mount Vernon Trust Company and Theresa Fischer Graves v. The Mount Vernon Trust Company.

"Mr. Dillistin's letter does not contain any comments with regard to the allegations made in the bills of complaint nor as to the possible effect of such suits upon the successful operation of the reorganized trust company. The allegations made in the bill of complaint in the case of Henry M. Kahle go considerably farther than would appear from the information submitted with Mr. Dillistin's letter of November 20, 1933.

"It is apparent that the Board cannot undertake, on the basis of information submitted, to pass upon the possible effects of these suits upon The Mount Vernon Trust Company, and it will be appreciated if, after discussion with your Counsel, such investigation of the allegations contained in the bills of complaint filed in these suits as you consider necessary, and a consideration of all of the circumstances involved in such suits, you will advise the Board as to what effect, if any, such suits, in your opinion, will have upon the successful operation of The Mount Vernon Trust Company.

"The bill of complaint in the Kahle suit refers to suits of Rosenberg and Sammitt, in which judgments of \$21,000 against The Mount Vernon Trust Company were recovered by the plaintiffs on August 19, 1933, and you are requested to advise the Board as to the nature of such suits and as to any consequences which they may have upon the bank.

"Before issuing any Federal reserve bank stock to The Mount Vernon Trust Company, you are requested to satisfy yourself that the reorganization plans have been fairly carried out and that the public reaction to the reorganization of the bank is satisfactory, and to advise the Board of your findings."

Approved.

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

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"This refers to your letter of December 16, 1933, transmitting a certified copy of a resolution adopted on December 8, 1933, by the directors of the Wharton Bank and Trust Company, Wharton, Texas, authorizing the withdrawal of this bank from membership in the Federal Reserve System, together with a letter from the President of the bank giving notice of its intention to withdraw at the expiration of six months.

"You have advised that the notice of withdrawal was received in your office on December 15, 1933. At the expiration of six months from that date, therefore, upon the surrender of the Federal Reserve Bank stock held by the Wharton Bank and Trust Company, the Federal Reserve Bank of Dallas is authorized to make appropriate refund thereon. It has been observed that the decision of the bank to withdraw from membership was prompted by the feeling that affiliation with the Federal Deposit Insurance Corporation would be burdensome, although it is possible that this decision might be reconsidered within the six months period. Accordingly, if the bank should later decide not to withdraw within that period the Board should be promptly notified."

Approved.

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

"Under date of November 21, 1933, you were furnished with a copy of a letter of that date which the Board had written to its Federal Reserve Agent at Kansas City, Missouri, in regard to the application of the National Bank of Tulsa, Tulsa, Oklahoma for fiduciary powers. In that letter the Board stated, in part, as follows:

"In view of all the circumstances, the Board is prepared to approve the application of the National Bank of Tulsa for full fiduciary powers when it has been advised that action has been taken to the satisfaction of yourself, your Executive Committee, the Reconstruction Finance Corporation, and the Comptroller of the Currency, as follows:

- "1. That the bank has obtained an experienced and competent trust officer not previously connected with the Exchange Trust Company, the Exchange National Bank, or the Exchange National Company of Tulsa.
- "2. That a trust committee has been selected composed only of the directors who are most capable and experienced in trust matters, particularly in trust investments.
- "3. That the bank has retained competent legal counsel experienced in trust matters.
- "4. That the existing vacancies on the board of directors have been filled by experienced and competent individuals.

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- "5. That adequate attention is being given on the part of the directors and officers to placing in satisfactory condition the large volume of criticized loans.
- "6. That all amounts classified as losses by the national bank examiner in his report as of August 31, 1933, have been charged off or otherwise eliminated from the assets of the bank.

"When satisfactory assurances covering these matters have been received by the Board, it will grant the application for full fiduciary powers, with the understanding that to the extent that any trusts are taken over from the Exchange Trust Company and Exchange National Bank they will be confined to those which have been approved by the national bank examiner."

"On January 4, 1934, Mr. E. I. Hanlon and Mr. Fletcher Farrell of Oklahoma City, called upon Mr. Paulger and discussed the application of the National Bank of Tulsa for fiduciary powers and the requirements of the Board relative thereto. Mr. Paulger was advised confidentially that the bank proposes to elect, at its annual meeting in January, Mr. Hanlon as Chairman of the Board of Directors and Mr. A. E. Bradshaw, until recently executive vice president of the First National Bank and Trust Company of Tulsa, as President. Incidentally, in this connection reference is made to the bank examiner's comment regarding Mr. Bradshaw contained in the last report of examination of that bank and to a subsequent letter from Chief National Bank Examiner Wright of Kansas City, covering the same matter.

"With reference to the Board's requirements, Mr. Hanlon stated his position as follows, but conditional of course upon his being elected to the chairmanship of the bank:

- "1. That an experienced and competent trust officer, satisfactory to the Federal Reserve Board, the Comptroller of the Currency and the Federal Reserve Bank of Kansas City will be selected immediately and his name furnished to the Federal Reserve Agent in Kansas City.
- "2. That the trust committee as at present composed is regarded by the board of directors as including those directors who are most capable and experienced in trust matters and that the personnel of that committee is not only highly satisfactory to him but desired by him for the purposes for which they have been selected.
- "3. That the bank's present counsel Mr. Hull is regarded by him as the best man who could be selected for that position and to advise the bank on trust matters, and that it is desired to retain him as the bank's counsel.
- "4. That it is proposed to reduce the number of directors from 26 to 19 and to be composed of the following:
 H. G. Barnard, Investments
 J. A. Chapman, Capitalist
 Edward H. Chandler, General Counsel, Sinclair-Prairie Companies

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"T. A. Creekmore, President, Summit Drilling Company
 J. E. Crosbie, Capitalist and Oil Producer
 J. C. Denton, Vice President, Mid-Continent Petroleum Corporation
 John H. Dunkin, Secretary-Treasurer, Brown-Dunkin Company
 J. H. Evans, President, Devonian Oil Company
 H. V. Foster, President, Indian Territory Illuminating Oil Company
 E. I. Hanlon, President, Heneghan and Hanlon, Inc.
 Jos. L. Hull, Counsel, National Bank of Tulsa
 J. J. Larkin, President, Larkin Torpedo Company
 T. S. Loffland, President, Loffland Brothers Company
 P. M. Miskell, General Manager, Refining Division, Empire Oil and Refining Company
 A. H. Rogers, Financial Secretary, J. A. Chapman and H. G. Barnard
 Charles A. Steele, Attorney-at-law
 C. H. Sweet, Vice President, National Bank of Tulsa
 C. J. Wrightsman, Capitalist and Oil Producer
 A. E. Bradshaw

- "5. That if adequate attention has not already been given to the large volume of criticized loans and to the bank's assets in general, immediately upon the election of himself and Mr. Bradshaw to the chief official positions in the bank, prompt and active attention will be given to all such matters; that he regarded Mr. Bradshaw as an unusually capable bank executive, that he had known him and done business with him for many years and was very desirous of having Mr. Bradshaw associated with him as President of the institution.
- "6. That the bank should not be required to charge off estimated losses at this time but should be granted until the maturity of the deficiency notes in which to effect all possible collections on the collateral securing such notes.

"With reference to the above list of directors Mr. Paulger was advised unofficially by the Reconstruction Finance Corporation that these parties as well as the proposed new management were satisfactory to the Reconstruction Finance Corporation.

"In regard to the paragraph numbered six, the national bank examiner in his report of examination as of August 31, 1933, listed losses as follows:

| | |
|--|-----------------------|
| Liquidating notes (The Exchange National Bank) | \$1,793,518.35 |
| Overdrafts | 749.34 |
| Bonds and securities | 29,253.43 |
| Banking house | 616,000.00* |
| Cash items | 53.50 |
| | <u>\$2,439,574.62</u> |

(*) \$400,000 also classed as doubtful.

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"Your letter of December 6, 1933, transmitted a letter dated November 23, 1933, from the examiner who made the examination of August 31, 1933, recommending that the classification of the banking house be amended to exclude both the doubtful and loss classifications. The losses as itemized in this letter would therefore be reduced by the amount of \$616,000.

"Inasmuch as nothing was said in your letter or the correspondence transmitted therewith about any change in the classification of the other losses listed aggregating \$1,823,574.62, it is assumed that the examiner's classification will be accepted.

"The Board will appreciate advice as to the action you propose to take with regard to the remaining losses as classified by your examiner in the report of examination of August 31, 1933, and would also like to be advised as to whether the proposed directorate and new management meet with your approval."

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 City National Bank of Kankakee', Kankakee, Illinois, from \$200,000 to \$150,000, 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, together with approximately \$83,172 from the bank's surplus and undivided profits, shall be used to eliminate substandard assets in the amount of approximately \$133,172, all as set forth in your memorandum of January 3, 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 First National Bank of Aberdeen', Aberdeen, Mississippi, 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 and securities depreciation of approximately \$44,400; the remainder

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"to be credited to surplus, all as set forth in your memorandum of January 5, 1934."

Approved.

Memorandum dated January 9, 1934, from Mr. Smead, Chief of the Division of Bank Operations, recommending approval of the following changes in the inter-district time schedules of cash items, which had been approved by the Federal reserve banks affected:

| | | <u>From</u> | <u>To</u> |
|-------------|------------------|-------------|-----------|
| St. Louis | to Nashville | 1 day | 2 days |
| " | " El Paso | 3 days | 2 " |
| " | " Los Angeles | 4 " | 3 " |
| Little Rock | to Richmond | 3 " | 2 " |
| " | " El Paso | 3 " | 2 " |
| Louisville | to Pittsburgh | 2 " | 1 " |
| " | " Denver | 3 " | 2 " |
| " | " San Antonio | 3 " | 2 " |
| " | " El Paso | 4 " | 3 " |
| " | " San Francisco | 5 " | 4 " |
| " | " Portland | 5 " | 4 " |
| Memphis | to New York | 3 " | 2 " |
| " | " El Paso | 3 " | 2 " |
| " | " Los Angeles | 4 " | 3 " |
| " | " Salt Lake City | 4 " | 3 " |
| " | " Portland | 5 " | 4 " |
| " | " Spokane | 5 " | 4 " |
| " | " Seattle | 5 " | 4 " |
| New York | to Memphis | 3 " | 2 " |
| Pittsburgh | to Louisville | 2 " | 1 " |

Approved.

Letter to Mr. Dillistin, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"In compliance with the recommendation made in your letter of January 8, you are authorized to grant the Guaranty Trust Company of New York an extension of time to February 15, 1934, within which it may submit reports of its affiliates domiciled abroad."

Approved.

Letter to Mr. H. C. Stine, Assistant Cashier of The First

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National Bank, Kenosha, Wisconsin, reading as follows:

"I regret that due to the pressure of other matters of urgent importance arising under the Banking Act of 1933 the Federal Reserve Board has been unable to make an earlier reply to your letter of October 3, 1933, regarding the applicability of the Wisconsin State Deposit Fund Law to funds deposited by the Clerk of the Circuit Court.

"The Federal Reserve Board understands that, under Section 34.06 of the Wisconsin Statutes, the Wisconsin State Deposit Fund includes all public deposits, and that such Fund is used solely for the reimbursement of losses resulting from the failure of any public depository to repay to a public depositor on demand the full amount of its deposit. It is also understood that every bank having any public funds on deposit is required to pay into the State Deposit Fund at quarterly intervals a sum equal to a certain per cent of the average daily balance of such deposits, 'such sum to be collected by the depository from the depositors'. In these circumstances, you state that you have taken the position that funds paid into court pending the outcome of litigation and deposited with your bank by the Clerk of the Circuit Court do not constitute 'public funds', and that you have, therefore, refused to remit to the State Board of Deposits the sum required to be paid into the State Deposit Fund.

"Section 19 of the Federal Reserve Act as amended provides that no interest may be paid on any deposit which is payable on demand, with certain exceptions; and it is the opinion of the Federal Reserve Board that the phrase 'deposits of public funds made by or on behalf of any State, county, school district or other subdivision or municipality', as used in that section, may not properly be construed as including deposits of monies paid into State courts by private parties pending the outcome of litigation. It appears that, under Section 34.01 of the Wisconsin Statutes, 'public deposits' are defined as including funds deposited by an officer of the State or any county, city, or other governmental subdivision. However, if there be any inconsistency between the State statute and the Federal statute on this subject, the latter must control; and accordingly, notwithstanding the definition of the term 'public deposits' contained in the Wisconsin Statutes, deposits of money paid into State courts by private parties pending the outcome of litigation are not exempt from the prohibition of Section 19 of the Federal Reserve Act upon the payment of interest on deposits payable on demand.

"The Board understands, however, that under the provisions of the Wisconsin State Deposit Fund law amounts paid by depository banks into such fund are collected by them from the depositors. It is the view of the Federal Reserve Board that the collection of such sums from the depositors by

"charging their accounts or otherwise and the payment of such amounts into the State Deposit Fund do not constitute a payment of interest within the meaning of the Federal Reserve Act and, accordingly, unless interest is paid or credited by the banks on such deposits in connection with such collections and payments to the fund, are not prohibited by that Act."

Approved.

Memorandum dated January 11, 1934, from Mr. Smead, Chief of the Division of Bank Operations, stating that replies received to the Board's telegram of January 9 to all Federal reserve banks with regard to subscriptions to stock of the Federal Deposit Insurance Corporation indicate that all Federal reserve banks except Richmond and Kansas City had subscribed to the stock and paid one-half of their subscriptions; that the Federal Reserve Banks of Richmond and Kansas City had advised that the request of the Corporation will be presented to their directors for action today; and that consequently their statements for this week will not include their subscriptions for such stock. The memorandum also recommended that, in view of this situation, the following paragraph be included in the text accompanying the condition statement of Federal reserve banks to be issued to the press today:

"Under the provisions of Section 12B of the Federal Reserve Act the Federal Deposit Insurance Corporation on January 3 called upon the Federal Reserve banks to subscribe forthwith to Class B stock in that corporation in an amount equal to one-half of their surplus on January 1, 1933, and to pay one-half thereof, and on January 5 the corporation called the remainder of such subscription for payment on April 15. The amounts paid the corporation and the amounts payable on April 15 are shown, for ten Federal reserve banks, immediately preceding 'All other liabilities' in this week's statement and the amount of stock acquired immediately preceding 'All other assets'. The request of the corporation will be acted upon by the two other Federal reserve banks at the next meetings of their boards of directors."

Approved.

Letter to Mr. John R. Stewart, Vice President of the First Wisconsin National Bank of Milwaukee, Wisconsin, reading as follows:

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"Receipt is acknowledged of your letter of January 8, 1934, inquiring as to the applicability of the Clayton Act to your service of certain banks. You point out that on December 18, 1930, the Federal Reserve Board issued to you a permit to serve at the same time as officer of the First Wisconsin National Bank, as officer and director of the Sixteenth Ward State Bank, and as director of the North Avenue State Bank, all of Milwaukee, Wisconsin.

"You also point out that at that time you were serving, in addition, as a director of the Mid City State Bank of Wauwatosa, Wisconsin, and you state that you are still serving these four banks in the capacities named above.

"At the time when the permit was issued to you, it was not necessary for you to have a permit covering your service as director of the Mid City State Bank, because that bank had resources, as defined in Regulation L of the Federal Reserve Board, of less than \$5,000,000 and was not located in the same city as the national bank.

"However, Section 33 of the Banking Act of 1933 amended the Clayton Act by adding a new section, Section 8A, which applies to the service of an officer, director or employee of a national bank as a director of any corporation (except a mutual savings bank) which shall make loans secured by stock or bond collateral. Therefore, if all of the banks which you are serving make loans secured by stock or bond collateral, the Clayton Act, as recently amended, is applicable to your service of all four of them.

"The Board's authority to issue permits is derived from the provisions of Section 8 of the Clayton Act, and that authority is limited to the issuance of permits covering the service of not more than three banking institutions which come within the provisions of the Clayton Act.

"Accordingly, although the permit heretofore issued to you remains in force until revoked, it does not authorize your service as director of the Mid City State Bank, and the Board is without authority to issue a permit covering your service of all four banks. Therefore, if all four of the banks make loans secured by stock or bond collateral, it will be necessary for you to sever your connection with one of the banks.

"A copy of your letter and of this reply are being sent to the Federal Reserve Agent at the Federal Reserve Bank of Chicago, who will be in a position to advise you further regarding these matters in the event that you have any further inquiries.

"A copy of Regulation L is inclosed for your information and your attention is directed to Section V(a) thereof."

Approved.

Letter dated January 10, 1934, approved by five members of the Board, to an applicant for a permit under the Clayton Act, advising of

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approval of his application as follows:

Mr. Alf Morris, for permission to serve at the same time as officer and director of the First National Bank, Winnsboro, Texas, and as director of the Federal Reserve Bank of Dallas, Dallas, Texas.

Approved.

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

Mr. Bayless W. Haynes, for permission to serve at the same time as director of The Barnett National Bank of Jacksonville, Jacksonville, Florida, and as director of the Jacksonville branch, Federal Reserve Bank of Atlanta, Jacksonville, Florida.

Mr. G. G. Ware, for permission to serve at the same time as director and officer of the First National Bank of Leesburg, Leesburg, Florida, as director of the Federal Reserve Bank of Atlanta, Atlanta, Georgia, and as director of the Jacksonville branch of the Federal Reserve Bank of Atlanta, Jacksonville, Florida.

Approved.

There was then presented the following application for original stock of a Federal reserve bank:

| <u>Application for ORIGINAL Stock:</u> | <u>Shares</u> | |
|---|---------------|-----|
| <u>District No. 7.</u> | | |
| Merchants National Bank of Terre Haute, Terre Haute, Indiana | 450 | 450 |

Approved.

Thereupon the meeting adjourned.

Robert Moriel
Secretary.

Approved:

E. R. Black
Governor.