

A meeting of the Federal Reserve Board was held in Washington on Monday, January 15, 1934, at 2:30 p. m.

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

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

The Board considered and acted upon the following matters:

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

"The Federal Reserve Board has received your letter of January 4, 1934, and, in accordance with the request contained therein, approves the fees and allowances fixed by your board for the directors of the Federal Reserve Bank of San Francisco and its branches for the year 1934.

"Advice of the Board's action with regard to the allowance fixed for the member of the Federal Advisory Council representing the Twelfth Federal Reserve District during the current year is being sent to you in a separate letter."

Approved.

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

"The Federal Reserve Board notes from Mr. Sargent's letter of January 6, 1934, that the board of directors of your bank, at its meeting on January 4, appointed Mr. M. A. Arnold, President of the First National Bank, Seattle, Washington, as a member of the Federal Advisory Council representing the Twelfth Federal Reserve District for the year 1934, and the Board approves the compensation and allowance, fixed by your directors, of \$750 for each meeting of the Council attended by him."

Approved.

Telegram dated January 14, 1934, approved by five members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, stating that, subject to the conditions prescribed in the telegram, the Board approves the application of "The First-Central Trust

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"Company", Akron, Ohio, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland.

Approved.

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

"Refer your wire January 12, 1934 re application Security State Bank, Pearsall, Texas. Board grants extension of time to February 7, 1934 within which bank may comply with conditions of membership."

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 Easthampton', Easthampton, Massachusetts, from \$100,000 to \$25,000, pursuant to a plan which provides that the funds released by the reduction in common capital stock and at least \$25,000 from the bank's surplus, undivided profits and reserves, shall be used to eliminate substandard assets and securities depreciation in the amount of approximately \$100,000, all as set forth in your memorandum of January 9, 1934.

"In considering the plan under which the reduction in common capital stock is to be effected it was noted that after completion of the plan there will remain in the assets of the bank slow items in the amount of approximately \$182,000 and doubtful assets in the amount of approximately \$32,000, against which the bank will have practically no surplus, undivided profits and/or reserves. It is assumed, however, that you have this condition 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. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of Mr. Young's letter of January 4, 1934, advising of the proposed reduction in common capital stock of the 'Wilmette State Bank', Wilmette, Illinois, from \$200,000 to \$100,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$150,000 of capital debentures to the Reconstruction Finance Corporation and that certain assets, which are to be eliminated, shall be sold to stockholders for \$25,000. The released capi-

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"tal and the proceeds of the sale of eliminated assets, together with a portion of the bank's surplus and undivided profits and depreciation reserve accounts, shall be used to eliminate all doubtful assets and estimated losses aggregating approximately \$286,400.

"In accordance with the recommendation of your office, the Federal Reserve Board approves the proposed capital reduction as outlined above, with the understanding that your counsel has considered the case and is satisfied as to its legal aspects, that such reduction in the common capital stock and the sale of capital debentures will not result in any change in the corporate existence of the bank which will affect its membership in the Federal Reserve System, and that the transaction has the approval of the Auditor of Public Accounts for the State of Illinois.

"In approving the reduction in the common capital stock of the above named bank, the Board understands that the stockholders propose to purchase certain eliminated assets for \$25,000 in cash, with the understanding that the liquidation of such assets shall repay the stockholders the purchase price, plus 6 per cent interest thereon. Any liquidation of such assets in excess of the \$25,000 and interest shall revert to the bank. It is also understood that the proceeds of the sale of such assets to stockholders shall be used for the benefit of the bank but that there shall be no liability on the part of the bank for repayment to the stockholders. Further, the Board understands that no part of the funds released by the reduction of the common capital stock shall be returned to the stockholders and that the charged off assets, other than those sold to the stockholders, shall remain the property of the bank."

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 Fourth National Bank of Tulsa', Tulsa, Oklahoma, from \$250,000 to \$125,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$175,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock, together with approximately \$24,434 from the surplus account, shall be used to eliminate substandard assets and securities depreciation in the amount of approximately \$149,434, all as set forth in your memorandum of January 5, 1934.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted that after the proposed adjustments are completed the bank will still be somewhat undercapitalized. It was noted also that no provision was made

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"for the elimination of depreciation in securities in the higher grades of approximately \$82,056, in addition to which there will remain in the bank doubtful items aggregating approximately \$61,468. The existing debit balance in the undivided profits account is sufficient to eliminate the surplus remaining after the proposed eliminations are effected, and, therefore, the common capital stock will be impaired by the amount of the remaining securities depreciation. It is assumed, however, that you have these conditions in mind and that whenever it becomes feasible to do so you will obtain such further corrections as may be practicable."

Approved.

Telegram to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, approved by six members of the Board, Mr. Thomas having attached a memorandum to the file stating that, while he agreed that where debentures are issued and the proceeds used for the purpose of eliminating unacceptable assets, the issuing bank should not be permitted to eliminate such assets without showing the debentures as an outstanding liability, there were some general statements in the opinion dated November 21, 1933, by Mr. Boatwright, Assistant Counsel, attached to the file, which Mr. Thomas could not pass without reservations, which reservations were set forth in his memorandum. The telegram to Mr. Stevens read as follows:

"Retel November 13. Since it would appear that debentures represent absolute obligations of bank issuing same, it is opinion of Board that amount of such debentures should be included in determining liabilities of bank, and that if liability on account of debentures, together with other liabilities of bank to depositors and other creditors, should be sufficient in amount, as compared with amount of assets of bank, to create impairment in capital of bank, such bank would be ineligible for membership in Federal Reserve System. Situation does not appear to be distinguishable from that discussed in X-7598a."

Approved.

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Telegraphic reply to the following telegram received today from

Mr. Crane, Deputy Governor of the Federal Reserve Bank of New York:

"Reference is made to our wire of January 11 quoting resolution adopted by our Board of Directors in order to enable this bank to enter into an arrangement with a member bank, if formally requested to do so by the Secretary of the Treasury, for the purchase of gold bullion abroad and for the exchange thereof for gold coin and for the issuance in payment of such gold coin of Treasury notes in the face amount equal to the dollar cost of such gold bullion. As a result of our negotiations since that time with representatives of the Secretary of the Treasury and the member bank in question the proposed procedure has been changed in the following respects:

"(1) Bonds of the United States are to be issued instead of notes,

"(2) the gold bullion purchased abroad by the member bank is to be acquired by us and paid for with gold coin from our own stock, instead of being acquired by the Treasury and paid for in gold coin from the Treasury stock, and

"(3) The Secretary of the Treasury to agree to purchase or redeem such gold bullion weekly, paying us therefor gold coin of an equivalent gold content.

"This matter was discussed at the meeting of our executive committee today and in view of the foregoing changes the committee adopted the following resolution:

"Voted that, subject to the approval of the Federal Reserve Board, this bank may if requested by the Secretary of the Treasury, (a) arrange with a member bank for the purchase of gold bullion abroad, (b) acquire such gold bullion from such member bank paying therefor gold coin of an equivalent gold content, (c) arrange for the issuance of bonds of the United States in payment for such gold coin at such rates and upon such terms as the Secretary of the Treasury may request or direct, (d) arrange for the purchase or redemption of such bonds by the Secretary of the Treasury weekly, and (e) hold such gold bullion abroad, arrange for the shipment thereof, sell the same to the United States receiving in payment therefor gold coin of an equivalent gold content, or otherwise dispose of such gold coin; and that the officers of this bank and each of them hereby is authorized to do and perform such acts, and to sign and execute such agreements, as they may deem necessary or advisable in order to carry out the purposes of this resolution.'

"We shall appreciate advice of the Board's action on this matter."

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The reply read as follows:

"Your wire 15th referring to resolution quoted in your wire 11th, outlining changes in proposed procedure as result of negotiations, and setting forth revised resolution adopted by executive committee today STOP If requested by Secretary of the Treasury to act in accordance with resolution as quoted in your wire 15th Board approves compliance by your bank with such request."

Approved.

Telegraphic reply to the following telegram received today from Mr. Crane, Deputy Governor of the Federal Reserve Bank of New York:

"Representatives of the Treasury have informally requested this bank to purchase at the current price for gold as announced by the Secretary of the Treasury from time to time gold which the United States Assay Office at New York certifies to us has been recovered from natural deposits in the United States and from scrap gold and to sell to the Treasury gold coin of an equivalent gold content, receiving payment for such gold coin in bonds of the United States maturing about three months from their date, which bonds the Secretary of the Treasury will agree to repurchase from this bank once a week. This matter was discussed at the meeting of our Executive Committee today and that committee voted to authorize this bank, subject to the approval of the Federal Reserve Board and if requested by the Secretary of the Treasury, to make such purchases of gold and such sales of gold coin. We shall appreciate advice of the Board's action on this matter."

The reply read as follows:

"Your wire 15th in regard to informal request of representatives of the Treasury to purchase from time to time gold recovered from natural deposits and scrap gold STOP If requested by Secretary of the Treasury to act in accordance with plan outlined in your wire Board approves compliance by your bank with such request."

Approved.

Letter to Senator Carter Glass, reading as follows:

"I have brought to the attention of the Board your letter of January 11 in regard to the message which you had described

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"to me previously in conversation as being one addressed to a man by the name of Musher, in January, 1919, by a person who was at that time the private secretary of Senator Owen, which had been intercepted at New York and brought to the attention of Governor Harding and by him to your attention while you were Secretary of the Treasury and ex officio Chairman of the Federal Reserve Board.

"A search has been made of the files of the Federal Reserve Board and there has been found therein a copy of a telegram which evidently was sent from Paris, France, on January 13, 1919, to Nathan Musher and signed 'Beller' who, it appears, was the private secretary of Senator Owen. As this is evidently the telegram which you described, the Board has authorized me to send you a copy in accordance with your request, in view of the circumstances set forth in your letter of January 11, 1934."

Approved.

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

"This refers to your letter of November 4, 1933, inclosing a copy of a letter received from the Ramsey County National Bank of Devils Lake, North Dakota, regarding the computation of reserves under the Board's Regulation D, together with the opinion of your counsel with respect to the question presented.

"You state that in view of the member bank's inquiry, your counsel has suggested that you request the advice of the Board upon the following questions: whether a deposit which is represented by a certificate which was a time certificate of deposit at the time the deposit was made, but which will be payable in less than thirty days, constitutes a demand deposit for reserve purposes under Regulation D; and whether, if the preceding question is answered in the affirmative, the incorporation of a provision in such a time certificate reserving to the bank the right to require not less than thirty days' written notice before repayment will prevent the instrument from being a time certificate of deposit as defined in Regulation Q.

"You are advised that, in construing the provisions of Section 19 of the Federal Reserve Act relating to the reserve requirements of member banks, the Federal Reserve Board has consistently ruled that a deposit represented by a certificate which is payable at the expiration of a specified period not less than thirty days from the date of the certificate should be classified as a demand deposit beginning thirty days before its date of maturity.

"If a certificate of deposit is payable at the expiration of a specified period not less than thirty days from the date

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"of the instrument, and otherwise conforms to the definition of a time certificate of deposit contained in Regulation Q, such certificate constitutes a time certificate of deposit within the meaning of that regulation, notwithstanding the incorporation in the certificate of a provision giving the member bank the option to require not less than thirty days' written notice before repayment. However, after the maturity date specified in such certificate, the certificate becomes one with respect to which the bank merely reserves the right to require thirty days' written notice before repayment, 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 specified maturity date, no interest accruing thereafter may lawfully be paid on such deposit, although it may be classified as a time deposit for computing reserves until actually paid."

Approved.

Letter to Mr. J. L. Hun, Attorney for the National Bank of Tulsa, Oklahoma, reading as follows:

"Your letter of November 3, 1933, addressed to the Comptroller of the Currency, regarding the payment of interest on certain accounts consisting of Indian funds, has been referred to the Federal Reserve Board for reply.

"With reference to the account of D. Buddrus, Special Disbursing Agent for the Superintendent of the Five Civilized Tribes, you state that an agreement was entered into prior to June 16, 1933, between The Exchange National Bank and Mr. Buddrus, whereby the bank agreed to allow interest at the rate of 3 1/2% per annum upon deposits with respect to which the bank reserved the right to require thirty days' written notice prior to withdrawal. Subsequently, it appears that this account was among those which were assumed by your bank when it succeeded to the business of The Exchange National Bank. In the circumstances, you request to be advised whether you may lawfully pay interest on such accounts accruing after June 16, 1933. As stated in Footnote 5 of the Federal Reserve Board's Regulation Q, a copy of which is inclosed herewith, a deposit with respect to which the bank merely reserves the right to require notice of not less than thirty days before any withdrawal may not be regarded as a time deposit within the meaning of that regulation upon which interest may be paid. However, in accordance with the provisions of Section II (b) (4) of the regulation, interest may be paid on such a deposit in accordance with a contract which was lawfully

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"entered into in good faith before June 16, 1933, and in force on that date and which may not be terminated or modified by such bank at its option or without liability; but it became the duty of your bank to take such action as might be necessary, as soon as possible consistently with its contractual obligations, to terminate or to modify such a contract so as to bring the deposit into conformity with the provisions of the regulation. No interest accruing after such termination or modification of the contract may be paid on the deposit subject thereto, unless the deposit under the terms of the contract as modified conforms to the requirements of the regulation in this connection.

"In regard to the D. Gentry account, consisting of funds of the Osage Indian Agency, you state that such account was a demand account upon which, prior to June 16, 1933, interest was being paid upon daily balances each six months. You state that, acting upon advice received from the Commissioner of Indian Affairs, and in accordance with an agreement with Mr. Gentry, Special Disbursing Agent, your bank has transferred a part of the funds composing this deposit to a regular time account, payable only upon thirty days' notice. It became the duty of your bank with regard to this deposit also to terminate or modify the contract to which it was subject as soon as possible after June 16, 1933, so as to eliminate any provision for the payment of interest on deposits payable on demand and, inasmuch as it appears from your letter that the contract was modified or terminated on or about September 28, 1933, no interest accruing after the date of such modification or termination may lawfully be paid on any deposit subject thereto which is payable on demand. However, interest accruing after that date may lawfully be paid in accordance with the regulation on the amount of the funds which may have then been brought into conformity with the definition of time deposits contained in the regulation."

Approved.

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

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 11.</u>		
First National Bank in Big Spring, Big Spring, Texas	84	84
<u>Applications for ADDITIONAL Stock:</u>		
<u>District No. 4.</u>		
First National Bank, Homestead, Pennsylvania (Increase in capital through issue of preferred stock)	90	90

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<u>Applications for ADDITIONAL Stock: (Continued)</u>	Shares	
<u>District No. 7.</u>		
Lawndale National Bank, Chicago, Illinois (Increase in capital and surplus incident to consolidation of this bank and the Lawndale State Bank, nonmember)	180	
The Illinois National Bank & Trust Co., Rockford, Illinois (Increase in surplus)	12	
City National Bank, Council Bluffs, Iowa (Increase in capital through issue of common stock, partly offset by decrease in surplus)	<u>15</u>	207
 <u>District No. 9.</u>		
First National Bank, Hopkins, Minnesota (Increase in capital through issue of preferred stock, partly offset by decrease in surplus)	12	12
 <u>District No. 10.</u>		
First National Bank, Omaha, Nebraska (Increase in capital through issue of preferred stock, partly offset by decrease in common stock and surplus)	<u>240</u>	<u>240</u>
	Total	549

Approved.

Thereupon the meeting adjourned.

Rester Moriel
Secretary.

Approved:

E. R. Blakely
Governor.