

A meeting of the Federal Reserve Board was held in Washington on Friday, January 19, 1934, at 1:00 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 minutes of the meetings of the Federal Reserve Board held on November 20 and 28, December 4, 6, 8, 13, 18, 19, 20, 21, 22, 27, 28, and 29, 1933, and January 3, 4, 5, 6, 8, 9, 10, 11, 13 and 15, 1934, were approved.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on November 29, December 11, 12, and 26, 1933, were approved and the actions recorded therein were ratified unanimously.

The Board then considered and acted upon the following matters:

Letter dated January 18, 1934, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegram dated January 18, 1934, from Mr. Moore, Deputy Chairman of the Federal Reserve Bank of San Francisco, both advising that, at meetings of the boards of directors on that date, no change was made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Letter dated January 18, 1934, from Mrs. Betty B. Weadon, tendering her resignation as a stenographer in the Division of Examinations, effective as of the close of business on that date.

Accepted.

1/19/34

-2-

Telegram dated January 18, 1934, approved by five members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Your letter January 10. Board approves designation for the year 1934 of R. A. Radford, H. N. Harrison, A. W. Saarinen, J. E. Denmark, C. A. Whelchel and Sherman Drawdy as examiners, and J. R. McCravey, Jr. and A. A. McCurry as assistant examiners in Federal Reserve Agent's department your bank and approves designation of six officers and employees listed in your letter as special examiners. It is noted that the title of H. N. Harrison has been changed from Field Representative to Examiner."

Approved.

Letter dated January 18, 1934, approved by five members of the Board, to the board of directors of "The Peoples Bank Company", Canal Winchester, Ohio, 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 Cleveland.

Approved.

Letter dated January 18, 1934, approved by four members of the Board, to the "Peoples Bank", Little Rock, Arkansas, reading as follows:

"Effective if and when the Peoples Bank, Little Rock, Arkansas, is converted into a national banking association and is authorized by the Comptroller of the Currency to commence business as The Peoples National Bank of Little Rock, the Federal Reserve Board approves the application filed by your bank on behalf of such national bank for permission to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Arkansas, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and

1/19/34

-3-

"the regulations of the Federal Reserve Board.

"After the conversion of the Peoples Bank into The Peoples National Bank of Little Rock becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, the board of directors of the latter bank should adopt a resolution ratifying the action taken on its behalf by your bank in making application for permission to exercise trust powers, and it is requested that a certified copy of the resolution so adopted be forwarded to the Federal Reserve Board for its records as soon as possible. When a copy of such resolution has been received by the Board, a formal certificate covering the right of The Peoples National Bank of Little Rock to exercise trust powers will be forwarded to it."

Approved.

Letter dated January 18, 1934, approved by five members of the Board, 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 the common capital stock of the 'Bank of Burlington', Burlington, Wisconsin, from \$125,000, to \$62,500, and the sale of \$62,500 of capital debentures to the Reconstruction Finance Corporation, and recommending that the reduction in common capital stock be approved.

"Since it appears from the information submitted that the entire amount of the reduction in common capital is to be used to eliminate objectionable assets from the bank, and will effect a material improvement in its condition, and since the Board's consent to the reduction in capital is not required by law, or the conditions of membership applicable to the bank, the Board offers no objection to the reduction in capital in the amount indicated, or to the issuance of capital debentures, with the understanding, of course, 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 Commissioner of Banking for the State of Wisconsin."

Approved.

Letter dated January 18, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

1/19/34

-4-

"In accordance with your recommendation the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Raymondville', Raymondville, Texas, 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 the common capital stock shall be used to eliminate undesirable assets, all as set forth in your letter of January 8, 1934.

"In considering the plan under which the reduction of common capital stock is to be effected, it was noted that your examiner severely criticized the present management of the bank, and strongly recommended a change. It is assumed, however, that you have this fact in mind and that whenever it becomes feasible to do so you will obtain such further correction as may be practicable."

Approved.

Letter dated January 18, 1934, approved by five members of the Board, 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 Klamath Falls', Klamath Falls, Oregon, 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 \$100,000 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 \$60,800, and to augment the bank's undivided profits account in the amount of approximately \$39,200, all as set forth in your letter of January 9, 1934."

Approved.

Letter dated January 18, 1934, approved by five members of the Board, to Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"The Federal Reserve Board notes the amendments contained in the by-laws of the Federal Reserve Bank of Cleveland as amended to June 9, 1933, two copies of which were transmitted with your letter of January 4, 1934.

"In order that the Board may have a sufficient number of copies of the amended by-laws for its needs it will be appreciated

1/19/34

-5-

275

"if you will forward two additional copies."

Approved.

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

"There is inclosed a copy of a report of a special examination of the Fiscal Agency operations of the Federal Reserve Bank of San Francisco.

"The Board desires that the detailed information contained in this report be brought to the attention of the board of directors of your bank and that the Board be advised of any action which may be taken in connection therewith.

"The Board will also appreciate advice as to whether the recommendations of its examiner (pages 107-109) in regard to auditing functions with a view to maintaining a more complete control over the assets, accounts, and functions of the Fiscal Agency Department, as well as the changes recommended in connection with the records and clerical routine of the Department, have been adopted."

Approved.

Letter dated January 18, 1934, approved by five members of the Board, to Messrs. Smith, Shaw, McClay and Seifert, Pittsburgh, Pennsylvania, reading as follows:

"Receipt is acknowledged of your letter of January 12, 1934, in which you ask whether it is necessary under the provisions of Section 32 of the Banking Act of 1933 for The Union Trust Company of Pittsburgh, a member bank, to obtain a permit from the Federal Reserve Board to participate with Drexel & Company and other investment houses in the purchase of bonds issued by the Commonwealth of Pennsylvania and by various municipalities in the Commonwealth of Pennsylvania. Your letter contains a detailed description of the dealings upon which your question is based.

"It appears that it has heretofore been the practice of a group, headed by Drexel & Company and including as the other three principals The Union Trust Company of Pittsburgh, the Guaranty Company of New York and Brown Brothers, Harri- man & Company, to bid for bonds issued by the Commonwealth of Pennsylvania. Other dealers, selected by Drexel & Company as manager of the group, have been associated with these principals from time to time, but such dealers have not always been the same.

1/19/34

-6-

"The Commonwealth of Pennsylvania did not issue any bonds from 1926 until the latter part of 1933. In November 1933 the Commonwealth of Pennsylvania asked for bids for \$25,000,000 of its Public Works Relief Bonds. The group which made the successful bid for these bonds was headed by Drexel & Company and had as its other principals The Union Trust Company of Pittsburgh, and the other two organizations named in the second paragraph of this letter. A number of other dealers who were selected by Drexel & Company participated.

"No officer or director of The Union Trust Company of Pittsburgh is an officer, director or manager of any other member of the group named in the second paragraph of this letter. Brown Brothers, Harriman & Company carry a small cash account with The Union Trust Company of Pittsburgh, which sells letters of credit issued by Brown Brothers, Harriman and Company. Drexel & Company also carry an account with The Union Trust Company of Pittsburgh. With these exceptions there are no regular business relationships between The Union Trust Company of Pittsburgh and any other member of the group referred to in the second paragraph of this letter.

"On December 27, 1933, The Union Trust Company of Pittsburgh headed a group which included as the other principals the Guaranty Company of New York and the Bankers Trust Company of New York, and this group was a bidder for \$1,400,000 Public Works Relief Bonds issued by the City of Pittsburgh, although, as you state in your letter of January 13, 1934, it was not the successful bidder. Brown Brothers, Harriman & Company headed another group, which submitted a competing bid for these bonds. You state that the Bankers Trust Company of New York, which joined The Union Trust Company of Pittsburgh in the bid for these bonds, is usually in a group which bids against the group which The Union Trust Company of Pittsburgh joins for the purpose of bidding for bonds issued by the Commonwealth of Pennsylvania.

"You point out that the membership of the 'bidding group', which participates with the principals in bidding for such bonds, varies with each transaction, and that such membership is usually not fixed until the last minute before the bid is made.

"You suggest that the term 'correspondent bank' in Section 32 refers to a bank which regularly performs banking functions for a dealer in securities. However, as you will note from the definition in Section II of the Board's Regulation R, the Board has decided that this term does not include a bank which shall merely perform ordinary banking functions for a dealer in securities. You suggest that, if Congress had intended to refer to underwritings in Section 32, it would have done so as it did in Section 16 of the Banking Act of 1933. However, it does not appear that these sections were inserted in the bill at even approximately the same time, and it is felt that

1/19/34

"an argument such as you suggest can be given little weight in this connection.

"You also contend that Section 5136, Revised Statutes, as amended by Section 16 of the Banking Act of 1933, authorizes national banks to underwrite securities issued by States and political subdivisions of States, this provision being made applicable to all member banks, and you suggest that it would be unreasonable to require a member bank to obtain a permit in order to participate in an underwriting when it would be authorized to underwrite the whole issue, by the statutory provisions above referred to. However, those statutory provisions relate to dealings in investment securities by member banks; whereas Section 32 is concerned with relationships between member banks and dealers in securities.

"Therefore, it seems that even if a transaction would be permissible under the provisions of Section 5136, Revised Statutes, if standing alone, it might nevertheless fall within the prohibitions of Section 32 if it formed part of a regular association between a member bank and a dealer in securities.

"It appears that it is the established practice for The Union Trust Company of Pittsburgh to be one of the principals of a group headed by Drexel & Company which bids for bonds issued by the Commonwealth of Pennsylvania, and that the association is as regular as the nature of such dealings permits. It would seem possible that a less regular association might also come within the prohibitions of Section 32, but the Federal Reserve Board is of the opinion that, on the basis of the facts appearing from your letter, The Union Trust Company of Pittsburgh is a 'correspondent bank' of Drexel & Company in connection with the purchase, underwriting, and/or flotation of bonds of the Commonwealth of Pennsylvania, and that the continuation of such relationship would, therefore, be prohibited by the provisions of Section 32 unless the Federal Reserve Board should issue a permit therefor."

Approved.

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

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 1.</u>		
The Columbus National Bank of Providence, Providence, Rhode Island	144	144
<u>District No. 2.</u>		
Brockport National Bank, Brockport, New York	72	72

1/19/34

-8-

<u>Applications for ORIGINAL Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 3.</u>		
Herndon National Bank, Herndon, Pennsylvania	45	45
<u>District No. 7.</u>		
National Bank of Flint, Flint, Michigan	570	
The National Bank of Sterling, Sterling, Illinois	72	
The First National Bank of West Union, West Union, Iowa	36	678
	<u>Total</u>	<u>939</u>

Approved.

Thereupon the meeting adjourned.

Robert Morine
Secretary.

Approved:

E. R. Black
Governor.