

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Wednesday, February 14, 1934, at 4:00 p. m.

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

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

The Committee considered and acted upon the following matters:

Letter to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"In response to your letter of December 29, 1933, you are advised that the Federal Reserve Board has approved the payment to Mr. Phillips Ketchum, Counsel for the Federal Reserve Bank of Boston, of \$5,000 for professional services rendered during the period from January 1, 1933 to October 1, 1933, plus the sum of \$112.29 in reimbursement for out-of-pocket disbursements, such compensation being in addition to the retainer of \$200 per month regularly paid to Mr. Ketchum. It is noted that the payment of this additional fee has been approved by the Board of Directors of the bank subject to the Board's approval.

"In this connection, the Federal Reserve Board would appreciate definite advice as to what changes, if any, the Federal Reserve Bank of Boston contemplates making with respect to its arrangement for legal services. The Board understands that Mr. Hamlin discussed this subject with you when he was in Boston during the month of December and that he and Mr. Wyatt have since discussed it with Governor Young a number of times during Governor Young's visits to Washington. However, it seems advisable to comment upon the matter in this letter in order that the Board's views may be clearly understood.

"As you know, the Federal Reserve Board relies upon counsel for the Federal reserve banks for advice and information concerning matters depending primarily upon questions of local law and especially questions arising in connection with applications of State banks for membership in the Federal Reserve System, applications of holding company affiliates for voting permits, applications of national banks for trust powers, questions arising in connection with reorganizations of State member banks, and similar matters. Without intending to criticise any particular individual, but in order to be entirely frank, it may be said that the advice received on such matters arising in your district during recent months has frequently been unsatisfactory, principally because it has been indefinite and based upon assumptions of facts the actual existence of which had to be ascer-

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"tained before the Federal Reserve Board could take definite action upon the matters involved. This has made it necessary for the Board to communicate repeatedly with your bank before obtaining satisfactory advice upon such matters and has resulted in much delay in the disposition of matters which both your bank and the Board desired to dispose of promptly.

"The Board has no desire to prescribe the nature of the arrangements for legal services to be made by your bank; but, in view of the Board's experience and observations regarding the legal services obtained by other Federal reserve banks, it is believed that it is appropriate to suggest that your difficulty may result from the fact that you rely for legal advice upon a very busy firm of attorneys engaged in general practice, who are unable to devote enough time to a study of the problems of the Federal Reserve System to become intimately familiar with them and with the character of advice and information which the Federal Reserve Board expects in connection with matters such as those mentioned above. There is no objection to the retention of such a firm engaged for the purpose of handling litigation and other legal matters of an ordinary character; but the Board believes that more satisfactory advice would be obtained with respect to questions arising in connection with applications of State banks for membership, applications of national banks for trust powers, applications of holding companies for voting permits, questions arising in connection with reorganizations of State member banks, and similar matters if the bank would arrange to have a competent lawyer devote all of his time to the bank's work and especially if it would arrange for him to take an office in the bank and become a member of the bank's official staff. It is believed that such a man would become intimately familiar with the practical as well as the legal aspects of the bank's problems and could render more satisfactory legal services. He would naturally be entitled to more compensation than the retainer which you have been paying to your present counsel; but it is believed that the increased expense would be fully justified, especially in view of the greatly increased volume of work handled by the Federal reserve banks and the Federal Reserve Agents since the enactment of the Banking Act of 1933.

"Such arrangements have existed in a number of other Federal reserve banks for years with very satisfactory results and a similar arrangement has recently been entered into by the Federal Reserve Bank of Chicago.

"It will be appreciated if you will bring this matter to the attention of your Board of Directors and advise the Federal Reserve Board at your early convenience as to what action, if any, they propose to take in order to solve this problem."

Approved.

Letter to Mr. Rounds, Deputy Governor of the Federal Reserve Bank of New York, as Chairman of the Pension Committee, reading as

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follows:

"Reference is made to your letter of February 8 and previous correspondence including my letter of January 3, 1934, to you in regard to the retirement plan for officers and employees of the Federal reserve banks. The Board now understands that all of the twelve Federal reserve banks have approved the plan and the rules and regulations in the form submitted with your letter of November 22, 1933, with modifications which comply with the Board's suggestions contained in my letter of January 3, 1934.

"Therefore, the Federal Reserve Board now approves the plan and the rules and regulations as thus submitted and modified and Governor Calkins as Chairman of the Governors' Conference is being advised accordingly.

"The Board appreciates the information which you have submitted to it currently regarding the steps taken with the view of putting the plan into effect and will be glad if you will continue this practice."

Approved, together with a letter to
Governor Calkins in accordance therewith.

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

"Refer your letter February 10, 1934, re application Hyannis Trust Company, Hyannis, Massachusetts. Board grants extension of time to March 14, 1934, within which bank may comply with conditions of membership."

Approved.

Telegram dated February 13, 1934, approved by three members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Refer Sargent's letter February 9, 1934 re reorganization Yakima Valley Bank and Trust Company, Yakima, Washington. Board's approval of proposed reorganization of such member bank is not required by law or any conditions under which bank was admitted to membership, but whether bank may be reopened as a member bank depends upon issuance of license by Secretary of Treasury upon recommendation of Federal Reserve Bank. It appears that under proposed plan of reorganization bank's net worth will not equal total amount of capital debentures and capital stock outstanding, and Board feels that if reopening is accomplished under proposed plan bank's reports and published statements should correctly and fully reflect condition

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"of bank's capital liabilities. It does not appear that this would be accomplished by the method proposed in paragraph numbered (2) in pro forma statement forwarded with Sargent's letter. Board understands that your counsel is satisfied that plan will be legally effective under State law and that Supervisor of Banking will approve such plan."

Approved.

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

"Refer Sargent's telegram February 14 re application Monterey County Trust and Savings Bank, Salinas, California. Board grants extension of time to February 17, 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 'Staten Island National Bank & Trust Company of New York', Port Richmond, New York, from \$500,000 to \$250,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$250,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital, together with a portion of the bank's undivided profits, shall be used to eliminate, if the bank has not already done so, substandard assets, securities depreciation and depreciation in banking house in the amount of approximately \$277,625.71, all as set forth in your memorandum of February 3, 1934."

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 Anniston National Bank', Anniston, Alabama, 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 a corresponding amount of substandard

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"assets, and provides also that \$50,000 shall be transferred from the surplus account to a reserve for contingencies, all as set forth in your letter of February 1, 1934. In this connection, it is understood that the eliminated assets are to remain the property of the bank.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted from your letter that there has been a change in management since the examination of February 10, 1933, in which your examiner criticized a number of the directors and officers as having borrowed too freely for their individual needs and for concerns in which they are interested. The Reconstruction Finance Corporation examiner, as of December 12, 1933, lists borrowings of officers and directors as \$340,000 direct and \$294,000 indirect, representing approximately sixty per cent of total loans on that date. These borrowings seem particularly criticisable in view of the unsatisfactory condition of the bank. It is assumed, however, that these matters are receiving the attention of your office."

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 Commercial National Bank of Anniston', Anniston, Alabama, from \$300,000 to \$225,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$75,000 par value preferred stock to the Reconstruction Finance Corporation, all as set forth in your letter of February 2, 1934.

"It has been noted that no provision is made in your letter for the use of the released capital funds. It is assumed that none of the released capital funds will be returned to shareholders but that such funds will be used to eliminate unsatisfactory assets, securities depreciation and/or to augment the bank's surplus, undivided profits or reserve for losses and contingencies. It is further assumed that all eliminated assets are to remain the property of the bank."

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 First National Bank of Greenville', Greenville,

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"Alabama, from \$425,000 to \$300,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$125,000 par value preferred stock to the Reconstruction Finance Corporation, and that the released capital funds shall be used in eliminating substandard assets in the amount of approximately \$79,606.90, all as set forth in your letter of February 10, 1934.

"It has been noted that no provision is made in your letter for the use of the remaining released capital funds of approximately \$45,393.10. It is assumed, however, that none of the remaining released capital funds will be returned to shareholders but that such funds will be used to augment the bank's surplus or undivided profits. It is further assumed that all eliminated assets are to 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 Riddell National Bank of Brazil', Brazil, Indiana, from \$80,000 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, and that the funds released by the reduction in common capital stock shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of January 31, 1934."

Approved.

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

"Reference is made to your memorandum of January 27, 1934, recommending approval of a reduction in the common capital stock of 'The Woodford County National Bank of El Paso', El Paso, Illinois, from \$50,000 to \$25,000, in accordance with a plan of reorganization 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, together with the bank's undivided profits of approximately \$1,000 and a voluntary contribution by shareholders of approximately \$15,000, shall be used to eliminate substandard assets of approximately \$31,000 and establish a surplus of \$10,000.

"It is obvious that the reorganization plan will remove substandard assets, increase the liquid position and enable the bank for the time being to pay its depositors 100 per cent; however, due

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"to the very small amount of earning assets remaining in the bank and the increased expense for interest created by the issuance of preferred stock which the institution is ill-prepared to meet, it would seem that either a merger with the unrestricted El Paso National Bank or a liquidation of the subject bank might provide a more satisfactory solution of this bank's problem than would a reduction in its common capital and consequent release of the stockholders' liability thereon.

"The Board is advised that since 1921 the bank has made up deficits by charges against surplus and voluntary contributions, the result being a net loss to the stockholders; that it has paid no dividends since 1925; and that during the five years from 1928 to 1932 there was a net loss of about \$15,000. The Board is also informed that the bank was not licensed following the banking holiday; that it is in the hands of a conservator; and that last September a plan was submitted by the El Paso National Bank which provided for the payment in full of the depositors upon the payment of \$15,000 in cash by the stockholders of the Woodford County National Bank. The national bank examiner in his report of May 18, 1933, severely criticized the management and advocated a merger with the El Paso National Bank as a 'local banking correction which has been needed for a number of years'.

"The Assistant Federal Reserve Agent reported to the Board as follows:

'In view of this record, it is our belief that the community as well as the banking business will be better served by a pay-out of deposits either through the bank in the town now in operation or through a receiver, and we are not willing to recommend that the Reconstruction Finance Corporation purchase preferred stock in this bank or that the common shares be reduced.'

"It appears that the Federal Reserve Agent wired you as follows:

'Regarding plan for reorganization Woodford County National Bank, El Paso, Illinois, we have not approved the program for reopening this bank for the reasons indicated in our letter of December 11 and are not now inclined to recommend reduction in common capital of \$25,000 and purchasing by Reconstruction Finance Corporation of like amount of preferred stock, believing that the community as well as the banking business will be better served by 100% pay-out to depositors, either through the bank now in operation or through a receiver.'

"In the circumstances, the Board is not prepared to approve the proposed reduction in common capital stock of the bank as a part of the contemplated plan."

Approved.

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

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"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Seymour', Seymour, Texas, from \$75,000 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, together with a portion of the bank's undivided profits, shall be used to eliminate unsatisfactory assets in the amount of approximately \$45,185 and to establish a surplus of approximately \$7,500, all as set forth in your letter of February 3, 1934."

Approved.

Letters dated February 13, 1934, approved by five members of the Board, to Honorable Duncan U. Fletcher, Chairman of the Committee on Banking and Currency of the United States Senate, and to Honorable Henry B. Steagall, Chairman of the Banking and Currency Committee of the House of Representatives, reading as follows:

"The Federal Reserve Board respectfully recommends that appropriate legislation be enacted by Congress extending for one year from March 3, 1934, and for such additional period not exceeding two years as the President may prescribe, the authority conferred by the second paragraph of Section 16 of the Federal Reserve Act as amended by the Act of February 27, 1932, under which direct obligations of the United States may be used as collateral security for Federal reserve notes. It will be recalled that Section 16 of the Federal Reserve Act was amended by the Act of February 27, 1932, so as to provide that until March 3, 1933, the Federal Reserve Board, if it deems it in the public interest, shall have authority by an affirmative vote of not less than a majority of its members, to authorize the Federal reserve banks to offer, and the Federal Reserve Agents to accept, as collateral security for Federal reserve notes, direct obligations of the United States. As originally enacted, this amendment provided that such authorization should terminate on March 3, 1933, and such obligations be retired as security for Federal reserve notes; but the law was further amended by the Act of February 3, 1933, so as to extend the period of this authority until March 3, 1934.

"The Federal Reserve Board on May 5, 1932, authorized the Federal reserve banks to pledge direct obligations of the United States as collateral for Federal reserve notes and the procedure therefor was set out fully in the Federal Reserve Bulletin for the month of May, 1932, a copy of which is inclosed for your convenience; and since that date such obligations have been pledged continuously

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"as collateral security for Federal reserve notes, the maximum amount pledged at any one time being \$1,098,000,000 on March 20, 1933. In the opinion of the Board, the authority to use direct obligations of the United States as collateral for Federal reserve notes has been of material assistance to the Federal reserve banks in their efforts to facilitate business recovery.

"On January 31, 1934, Federal reserve notes were outstanding in the amount of \$3,181,000,000 and there were available to be used as collateral against them eligible paper in the amount of \$170,000,000 and gold certificates in the amount of \$2,687,000,000. Accordingly, the amount of direct obligations of the United States required as collateral against such outstanding Federal reserve notes on that date was \$324,000,000, and the Federal reserve banks on that date actually had pledged as collateral direct obligations of the United States in the amount of \$570,000,000. In the circumstances, it is the opinion of the Board that it is important to extend the authority to use direct obligations of the United States for this purpose until March 3, 1935, or until the expiration of such additional period not exceeding two years as the President may prescribe.

"For the consideration of your Committee there is inclosed herewith a draft of a bill which would accomplish this purpose. In view of the short time before March 3, 1934, when the present authority expires, the Board hopes that your Committee will be able to give this matter its prompt attention."

Approved.

Letter to Governor Calkins of the Federal Reserve Bank of San Francisco, as Chairman of the Governors' Conference, reading as follows:

"Replies to the Board's wire of January 15, 1934 (TRANS 1942) indicate that while all Federal Reserve banks purchase and sell United States Government securities at the request of and for the account of member banks, they do not have a uniform policy with respect to the practice of purchasing and selling such securities at the request of and for the account of (a) nonmember banks and (b) individuals, firms and corporations other than banks.

"The Board feels that it is doubtful whether Federal Reserve banks should buy and sell United States Government securities for nonmember banks and that it is particularly doubtful whether they should perform this service for individuals, firms and corporations. Accordingly, it is requested that this matter be made a topic for inclusion in the program of the next conference of the Governors of the Federal Reserve banks."

Approved.

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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. 4.</u>		
First National Bank of Export, Export, Pennsylvania	44	44
<u>District No. 7.</u>		
The Granville National Bank, Granville, Illinois	33	33
	<u>Total</u>	<u>77</u>

Approved.

Thereupon the meeting adjourned.

Chester Morrell
Secretary.

Approved:

E. R. Blady
Governor.