

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Wednesday, February 28, 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:

Telegram to Mr. Young, Secretary of the Federal Reserve Bank of Chicago, reading as follows:

"Your letter February 23. Inasmuch as retirement system will become effective on March 1, 1934, it is assumed resignation of Governor McDougal will be effective as of close of business that date. Accordingly, Board approves salary at rate of \$35,000 per annum, effective March 2, 1934, for Mr. Schaller as Governor your bank. Acceptance of resignation of Mr. Schaller as class A director your bank noted and assume that steps will be taken immediately for the election of successor."

Approved.

Telegram dated February 27, 1934, approved by five members of the Board, to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Mr. McAdams' letter February 21. Board authorizes continued employment on a temporary basis of J. K. Friedebach as Examiner in Federal Reserve Agent's department your bank and will appreciate prompt advice of any material changes in the status of his liability as shareholder Neligh bank."

Approved.

Letter dated February 27, 1934, approved by five members of the Board, to Mr. Helm, Deputy Governor and Cashier of the Federal Reserve Bank of Kansas City, stating that, in accordance with the recommendation contained in his letter of February 19, the Board approves a change in

2/28/34

-2-

the bank's personnel classification plan to provide for the new position of "junior clerk-typist" in the provision of personnel-paymaster department.

Approved.

Letter dated February 27, 1934, approved by four members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of January 19, 1934, transmitting and recommending favorably the application of the Everett Bank and Trust Company, Everett, Massachusetts, for a modification of conditions numbered 15 and 16 under which such bank was admitted to membership in the Federal Reserve System.

"It appears from the information submitted with your letters of January 19 and January 26, 1934, that the interpretation placed by the Board upon condition numbered 15, of which you were advised in a telegram dated April 21, 1933, was based upon erroneous information to the effect that the reserves established by the bank were valuation reserves set up for losses in loans and discounts and as such were deducted from this account in published statements of condition, whereas it now appears that such reserves were set up for losses which might develop in any asset account and that the full amount of such reserves has not, at any time, been deducted from the bank's loans and discounts in its published statement.

"It further appears that the bank is now desirous of purchasing its banking house from the affiliated Everett Trust Building Corporation pursuant to a plan which involves the liquidation of such affiliate and that in so doing a loss of approximately \$44,000 will be established in the bank's present investment in the building corporation, which loss the bank desires to charge out of such reserves.

"The Board has considered the supplemental information submitted, and you are requested to advise the Everett Bank and Trust Company that the establishment of valuation reserves of \$489,690 and \$14,848 to provide for the estimated losses in loans and discounts in other real estate, respectively, as shown in the report of examination of the Everett Bank and Trust Company as of March 6, 1933, will be considered compliance with condition numbered 15, provided that losses against which the reserves are established will be charged against the respective reserves as soon as the losses are determined, and that in all published statements of condition such reserves are deducted from the respective asset accounts to which they had been allocated.

"After the bank has acquired title to the banking house, condition of membership numbered 16 with respect to provision for depreciation in the building will not be applicable. You are requested,

2/28/34

-3-

"therefore, to advise the bank that it is expected that the bank will make adequate provision for depreciation in its banking premises, in amounts which shall be not less than 2 per cent annually of the amount at which the property will be set up on the books of the bank, and to request an agreement from the bank that such provision will be made.

"Although no reference has been made in the application to condition of membership numbered 8, which provides that before any investment is made in a bank building, the bank shall refer the matter to the Federal Reserve Board for consideration, the Board has considered this aspect of the proposed transaction. Since the transaction involves the restatement of an existing investment, rather than the making of a new investment in bank building, no action will be taken in this connection."

Approved.

Telegram dated February 27, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Re Dillistin's letter February 23, 1934 regarding application of The Mount Vernon Trust Company, Mount Vernon, N. Y., for membership, Board extends until March 28, 1934, time within which bank may accomplish membership in the System. The Board is not disposed to grant any further extension in this case and if membership is not accomplished within the time specified the Board feels that further consideration should be based upon a new application and a report of a current examination. Please advise the bank accordingly."

Approved.

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

"Reference is made to Mr. Dillistin's letter of February 9, 1934, regarding the assumption of the liabilities and the acquisition of the assets of The South Side National Bank and Trust Company of Newark, Newark, New Jersey by the West Side Trust Company, a member institution, also of Newark.

"The Board will interpose no objection to this method of complying with condition numbered 23 in so far as it concerns The South Side National Bank and Trust Company, provided that in the transaction the capital accounts of the West Side Trust Company shall be adjusted to provide for the writing down to market value of the securities, and the charge off or elimination of all losses in the other assets acquired from The South Side National Bank and Trust Company; that the agreement and transfer are approved by the Commissioner of Banking and Insurance of the State of New Jersey; and that the legal phases of the

2/28/34

-4-

"matter meet with the approval of your Counsel. Please forward copy of agreement covering the transaction as finally executed."

Approved.

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

"Reference is made to the analysis of the report of examination as of September 26, 1933, of the Citizens Bank and Trust Company, Savannah, Georgia, from which it is observed that the bank continued to hold shares of its own stock as collateral to loans. In this connection, it has been noted from a copy of the bank's letter of October 25, 1933, to the Superintendent of Banks of the State of Georgia, that the bank expected to liquidate the Mercantile National Bank account by the end of the year, or at least in January, 1934, through the sale of the 91 shares of stock of the Citizens Bank and Trust Company held as collateral, and it will be appreciated if you will advise the Board whether such shares have since been disposed of.

"It has been noted that, in addition to the shares referred to above, the bank held 151 shares of its own stock as additional collateral to four lines, including 128 shares held as additional collateral to the line of the president of the bank, whose affairs were reported to be in an involved condition. The Board has noted the assurances given by the vice president, who is actively in charge of the bank, to your examiner, that all stock of the bank which is pledged as security would be disposed of as soon as possible, and it will be appreciated if you will keep the Board advised as to the progress made in disposing of such stock.

"The analysis reflects an unsatisfactory condition, with borrowings of officers and directors criticized, with the affairs of the president in an involved condition, and \$10,000 of an excess loan to a director, which is a statutory bad debt, classified as loss. While the examiner reports that he is of the opinion that Vice President Smith will be able to work out the present unsatisfactory condition of the bank over a long period, it is assumed that you have given consideration to the unsatisfactory record of the directors whose financial affairs are involved. In this connection, the Board feels that any director whose affairs have become so involved as to cause a direct loss to the bank which he serves has seriously impaired his usefulness to that institution."

Approved.

Letter dated February 27, 1934, approved by five members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

2/28/34

-5-

"Receipt is acknowledged of Mr. Swanson's letter of February 5, 1934, reporting several specific instances during 1932 and 1933 when The First National Bank of Bayfield, Bayfield, Wisconsin, was deficient in its required reserves. It is understood that the bank is now maintaining its required reserve with the Federal Reserve Bank of Minneapolis and the Board will therefore take no action at this time, other than to forward copies of Mr. Swanson's letter to the Comptroller of the Currency for his information."

Approved.

Letter to "The Orange First National Bank", Orange, New Jersey, reading as follows:

"The Federal Reserve Board approves your application 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 New Jersey, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise the fiduciary powers as set forth above. A formal certificate covering such authorization will be forwarded to you in due course.

"The Board feels that you should carefully scrutinize the condition of any of the trusts now held by the Orange National Bank which may be tendered to you and should not accept any of such trusts which, through their assumption, may be detrimental to the interests of your institution."

Approved.

Letter dated February 27, 1934, approved by five members of the Board, to Mr. Lawrence H. Miles, Cashier of "The National Bank of Savanna", Savanna, Illinois, reading as follows:

"Receipt is acknowledged of your letter of February 5, 1934, and your telegrams of February 14 and 16, with reference to the application for fiduciary powers previously submitted by you through the Federal Reserve Agent at the Federal Reserve Bank of Chicago, and in regard to which you were advised that the Board would take no action at this time.

"The Board has reviewed the application and the data in connection therewith and is unwilling to take any action thereon until

2/28/34

-6-

"your bank has been examined by a representative of the Comptroller of the Currency and the report thereon is available.

"Your application, therefore, will be held in abeyance until the desired examination has been made, at which time the Board will be pleased to reconsider the matter."

Approved.

Letter dated February 27, 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 Home National Bank of Brockton', Brockton, Massachusetts, from \$500,000 to \$250,000, pursuant to a plan which provides that the bank's capital shall be increased by \$300,000 Class 'A' preferred stock to be sold to the Reconstruction Finance Corporation and \$200,000 Class 'B' preferred stock to be sold locally, (\$65,000 of which will represent the exchange of subordinated deposits for preferred stock) and provides also for the use of the released capital funds, together with a portion of the bank's present surplus and undivided profits accounts in eliminating all estimated losses and depreciation in investment securities of the lower grades and increasing the account 'reserves for depreciation and losses' to \$300,000, all as set forth in your memorandum of February 15, 1934."

Approved.

Letter dated February 27, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of your supplemental memorandum of February 19, 1934, in regard to the proposed reduction in the common capital stock of 'The Middletown National Bank', Middletown, Connecticut, which the Board approved November 18, 1933, wherein you recommend approval of an amendment to the plan which provides for the sale locally of \$126,900 of preferred stock instead of the sale of that amount of common stock as provided in the original plan.

"This amendment is acceptable to the Board, with the understanding that the other features of the plan remain unchanged."

Approved.

Telegram to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, stating that the Board has considered the application of "H. Kempner", Galveston, Texas, for a voting permit under authority

2/28/34

-7-

of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The United States National Bank of Galveston", Galveston, Texas, and has authorized the issuance of a limited permit to the applicant, subject to the following condition:

"Prior to the issuance of the limited voting permit hereby authorized applicant shall agree that it will cause The United States National Bank of Galveston, Galveston, Texas, to make such corrections as shall be requested by the Federal Reserve Agent at the Federal Reserve Bank of Dallas, and within such period or periods as he may prescribe, in order to remove the cause of any criticism relating to any feature of its practices, policies, management or financial condition which has been made by the appropriate supervisory authorities."

and for the following purposes:

"At any time prior to June 1, 1934, to act upon a proposal to rehabilitate the capital structure of such bank in accordance with the plan which has heretofore been approved by the Comptroller of the Currency and the Federal Reserve Board, which plan includes provisions for the reduction of the bank's common capital stock from \$1,000,000 to \$500,000 and the issuance and sale to the Reconstruction Finance Corporation of \$500,000 par value preferred stock, and to amend the bank's articles of association and to do all other things necessary to effect such plan."

The telegram stated also that the usual form of limited permit appears adequate as the stock of the national bank is understood to be owned or controlled by the applicant even though registered in the names of individual trustees as nominees. The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to H. Kempner, a limited voting permit in accordance with the telegram when the condition prescribed therein has been complied with.

. Approved.

Telegram to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, stating that the Board has considered

2/28/34

-8-

the application of the "First Trust and Savings Bank of Pasadena", Pasadena, California, for a voting permit under authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The First National Bank of Pasadena", Pasadena, California, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"Prior to the issuance of the limited voting permit hereby authorized

"(1) There shall be submitted to you evidence satisfactory to counsel for the Federal Reserve Bank of San Francisco that A. R. Thomas, Secretary, was authorized to execute the consent of First Holding Corporation to Exhibit N of the voting permit application;

"(2) Applicant shall agree that it will take all necessary steps to obtain membership in the Federal Reserve System including the fulfillment of conditions of membership which have been prescribed by the Board."

and for the following purposes:

"Within such time or times as shall be fixed by the Federal Reserve Agent at the Federal Reserve Bank of San Francisco, to act upon a proposal or proposals whereby the First Trust and Savings Bank of Pasadena will take over The First National Bank of Pasadena by assumption of liabilities and purchase of assets in an extent and manner which shall be approved by the appropriate supervisory authorities and shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco and in accordance with a plan calling for the membership of First Trust and Savings Bank of Pasadena in the Federal Reserve System; and also to act upon a proposal to effect the liquidation of The First National Bank of Pasadena."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the First Trust and Savings Bank of Pasadena, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with, and stated that, anticipating that the permit authorized by the telegram may not be



2/28/34

-9-

used, an alternative limited permit authorizing the election of directors and changes in capitalization is authorized by another telegram upon the conditions therein set forth.

Approved.

In connection with the above there was presented a second telegram to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, stating that the Board has considered the application of the "First Trust and Savings Bank of Pasadena", Pasadena, California, for a voting permit under authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The First National Bank of Pasadena", Pasadena, California, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"First. Prior to the issuance of the limited voting permit hereby authorized there shall be submitted to you evidence satisfactory to counsel for the Federal Reserve Bank of San Francisco that A. R. Thomas, Secretary, was authorized to execute the consent of First Holding Corporation to Exhibit N of the voting permit application.

"Second. Prior to the issuance of the limited voting permit hereby authorized applicant shall agree that

"(1) Within such time as shall be fixed by the Federal Reserve Agent at the Federal Reserve Bank of San Francisco and in any event prior to July 1, 1934, the undersigned will rehabilitate its own capital structure by means of voluntary contributions and/or issuance of new common stock and/or preferred stock, or otherwise, in such manner and in such aggregate amount as shall be approved by the appropriate supervisory authorities and shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco, and will charge off or otherwise eliminate (a) estimated losses in loans and discounts, (b) depreciation in stocks and defaulted securities, (c) depreciation in securities not of the four highest grades as classified by an investment service organization regularly engaged in the business of rating or grading securities, and (d) all other losses, such charge offs or eliminations to be based upon a current

2/28/34

-10-

"examination or credit investigation and to be of such nature and extent, and in accordance with such plan or plans for the rehabilitation of the undersigned, as shall be approved by the appropriate supervisory authorities and shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco;

"(2) All assets which may be charged off or otherwise eliminated pursuant to the foregoing requirement numbered (1) shall remain the property of the undersigned and shall not be distributed to its shareholders or otherwise released in any manner whatsoever;

"(3) The undersigned will make such corrections as shall be requested by the Federal Reserve Agent at the Federal Reserve Bank of San Francisco in order to remove the cause of any criticism relating to any feature of its practices, policies management, or financial condition which has been made by the appropriate supervisory authorities;

"(4) Within such time as shall be fixed by the Federal Reserve Agent at the Federal Reserve Bank of San Francisco, and in any event prior to July 1, 1934, the undersigned will cause The First National Bank of Pasadena to rehabilitate its capital structure by means of voluntary contributions and/or issuance of new common stock and/or preferred stock, or otherwise, in such manner and in such aggregate amount as shall be approved by the appropriate supervisory authorities and shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco, and will cause The First National Bank of Pasadena to charge off or otherwise eliminate (a) estimated losses in loans and discounts, (b) depreciation in stocks and defaulted securities, (c) depreciation in securities not of the four highest grades, as classified by an investment service organization regularly engaged in the business of rating or grading securities, and (d) all other losses, such charge offs or eliminations to be based upon a current examination or credit investigation and to be of such nature and extent, and in accordance with such plan or plans for the rehabilitation of The First National Bank of Pasadena as shall be approved by the appropriate supervisory authorities and shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco;

"(5) All of the assets which may be charged off or otherwise eliminated pursuant to the foregoing requirement numbered (4) shall remain the property of The First National Bank of Pasadena and shall not be distributed to its shareholders or to the shareholders of the undersigned or otherwise released in any manner whatsoever;

"(6) The undersigned will cause The First National Bank of Pasadena to make such corrections as shall be requested by the Federal Reserve Agent at the Federal Reserve Bank of San Francisco in order to remove the cause of any criticism relating

2/28/34

-11-

"to any feature of the practices, policies, management or financial condition of such bank which has been made by the appropriate supervisory authorities; and

"(7) The undersigned will cause The First National Bank of Pasadena to eliminate, or to initiate the reduction pursuant to a program calling for the regular periodic retirement in substantial amounts of, all loans and advances made by such bank to the First Holding Corporation and also of all loans and advances secured by and all investments in stocks or obligations of the undersigned, or of any of its affiliated organizations."

and for the following purposes:

"(1) To elect directors of such bank at any meeting of shareholders, or at any adjournment thereof, at any time prior to May 1, 1934, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank;

"(2) At any time prior to July 1, 1934, to act upon a proposal or proposals to authorize and effect a reduction in the common capital stock of such bank and an increase in the capital stock of such bank by the issuance and sale of preferred stock, or otherwise, and to amend the bank's articles of association and to do all things necessary to carry out such purposes, provided that such proposal or proposals shall be in accordance with a plan or plans which have been approved by the appropriate supervisory authorities and shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the First Trust and Savings Bank of Pasadena, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved, together with a 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 Pasadena', Pasadena, California, 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 stock, together with approximately \$74,000 of surplus, undivided profits and reserves, shall be used to eliminate sub-

2/28/34

-12-

"standard assets in the amount of approximately \$324,000, all as set forth in your letter of January 22, 1934.

"In this connection you are advised that the Board has approved the application of the affiliated First Trust and Savings Bank, Pasadena, California, for membership in the Federal Reserve System, that the Reconstruction Finance Corporation has agreed to purchase \$750,000 of preferred stock in the First Trust and Savings Bank and that it is understood the State bank contemplates taking over the national bank.

"The Federal Reserve Agent at San Francisco has been advised that the proposed merger must, of course, be on a basis satisfactory to you and to the Superintendent of Banks for the State of California."

Telegraphic reply on February 27, 1934, approved by four members of the Board, to the following letter dated February 26, from Mr. Crane, Deputy Governor of the Federal Reserve Bank of New York:

"At present we are carrying in our accounts with the Bank of England approximately £157,000 which is entered on our books at about \$520,000 and which has a value at current exchange rates of about \$800,000. In our accounts with the Bank of France we have slightly over 27,000,000 francs which we are carrying on our books at \$1,070,000 and which has a current value in the exchange market of about \$1,755,000.

"Owing to the enhanced dollar value of these holdings of foreign currencies and the recent inactivity in our accounts with the Bank of England and the Bank of France, we believe that we might properly reduce the size of the accounts to the equivalent of, say \$500,000, with each bank. This would mean approximately £100,000 with the Bank of England and about 7,500,000 francs with the Bank of France. The sale of the sterling and francs which we now hold in excess of the last mentioned amounts would bring a profit at prevailing exchange rates of about \$615,000 and we would then be carrying on our books £100,000 at \$3.31 per pound and 7,500,000 francs at \$.0390 per franc.

"At the meeting of our Executive Committee today it was voted to approve the recommendation of the officers that our accounts with the Bank of England and the Bank of France be reduced as outlined above. We should appreciate your advising us whether the Federal Reserve Board sees any objection to our effecting such reductions."

The reply read as follows:

"Your letter 26th to Governor Black regarding accounts with Bank of England and Bank of France. Board sees no objection to reductions in balances in accordance with action at meeting your

2/28/34

-13-

"executive committee as outlined in your letter."

Approved.

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

"This refers to your letter of October 9, 1933, in connection with the approval by the Federal Reserve Board of an application for Federal reserve bank stock by the Athens National Bank of Athens, New York, on the basis of a capital stock of \$100,000 and a surplus of \$20,000. You called attention to the fact that the Athens National Bank has a common capital stock with an aggregate par value of \$50,000, preferred stock with an aggregate par value of \$50,000, which must be retired in the aggregate amount of \$125,000, and a surplus carried on its books in the amount of \$20,000. It appears that the surplus and the capital stock of the bank have been impaired by losses. In these circumstances you request advice as to whether Federal reserve bank stock may properly be issued to the Athens National Bank on the basis of a capital of \$100,000 and a surplus of \$20,000.

"As stated in the Board's letter of June 19, 1933 (X-7459) the Federal Reserve Board feels that, while any impairment in the capital stock or surplus of a bank should be corrected as soon as possible, for purposes of determining the amount of Federal reserve bank stock for which a bank should subscribe the application should be based on the amount of issued and paid-in capital stock of the bank, together with the amount at which its surplus is carried on the books of the bank, rather than on the basis of the bank's unimpaired capital stock and surplus.

"In connection with the fact that the preferred stock issued by the Athens National Bank is retireable at a premium in addition to its par value, attention is called to the fact that it is the practice to issue Federal reserve bank stock on the basis of the par value of the common stock of a member bank, and the Board feels that the par value of preferred stock should also be used as a basis for issuance of Federal reserve bank stock rather than the amount at which such preferred stock which is retireable at a premium must be retired. In this connection it has been noted that under the terms of the law when a national bank is placed in voluntary liquidation or a conservator or a receiver is appointed therefor no payments shall be made to holders of the common stock of the bank until the holders of preferred stock issued by the bank shall have been paid in full the par value of such stock plus accumulated dividends, and the Attorney General of the United States in an opinion dated November 25, 1933, has raised a question as to whether preferred stock issued by a national bank retireable at a premium may be retired at more than the par value of the stock plus accumulated dividends if the bank is placed in liquidation or if a

2/28/34

-14-

"conservator or a receiver is appointed for the bank. In the circumstances you are advised that Federal reserve bank stock may properly be issued to the Athens National Bank on the basis of the par value of its capital stock of \$100,000 and the amount at which its surplus is carried on its books, \$20,000.

"As noted above, the Board feels that any impairment in the capital stock or surplus of a bank should be corrected as soon as possible and reports and published statements of a bank should reflect the condition of the assets and liabilities of the bank. Accordingly, for the purposes of reports of condition made to the Board on Form 105, it is desirable, as indicated in Mr. Smead's letter of September 20, 1933, that the true condition of the capital funds of a state member bank be shown in that report rather than to show a surplus which is impaired."

Approved.

Letter to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"The Federal Reserve Board has given consideration to the recommendation of your Executive Committee, contained in your letter of January 4, 1934, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to The Riverview State Bank, Kansas City, Kansas, effective with the first reserve computation period beginning after the date of this letter, to maintain a reserve with the Federal Reserve Bank of Kansas City equal to not less than 7% of the aggregate amount of its demand deposits and 3% of the aggregate amount of its time deposits.

"Please advise The Riverview State Bank, Kansas City, Kansas, of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation by the Federal Reserve Board at any time after appropriate notice to the member bank."

Approved.

Letter to Honorable Peter Norbeck, United States Senator, reading as follows:

"Your letter of December 26, 1933, addressed to the Comptroller of the Currency, inclosing a copy of a letter from Mr. George P. Cady suggesting that the Federal Reserve Act be amended so as to permit the admission of State banks to membership in the Federal Reserve System with a capital of less than \$25,000, has been referred to the Federal Reserve Board for reply. I regret that the pressure of many urgent matters has prevented an earlier reply to your letter.

"In the light of the experience of recent years with respect to banking institutions of small size, the Board does not feel that

2/28/34

-15-

"the law should be amended so as to permit banks to become members of the Federal Reserve System with a capital of less than \$25,000. In this connection it may be pointed out that of the national and State banks which suspended during the eleven year period of 1921 to 1931 57.7 per cent were banks with a capital of \$25,000 or less, that out of every 100 active State banks on June 30, 1920, having a capital stock of less than \$25,000 36.9 per cent suspended during the period referred to, and that out of every 100 active national and State banks having a capital of \$25,000 32.9 per cent suspended during such period. Moreover, in many cases, the deposits of a bank even with a capital of \$25,000, unless it has a relatively large amount of surplus, are insufficient to insure for it an adequate earning capacity and such banks find it difficult to pay the compensation necessary to obtain competent managing officers and, due to the limited funds available for investment, are frequently unable to secure a proper distribution of risks in investing such funds. Where risks are not well distributed losses are apt to be too high and to absorb too large a proportion of earnings. The pressure for high earnings and low expenses often results in poor management and in the assumption of excessive risks that lead to failure with resulting distress to the communities in which such banks are located. In these circumstances, particularly, the capital stock of the bank should unquestionably be adequate to provide protection for its depositors and, in the judgment of the Board, such capital should be at least equal to \$25,000. In this connection, it also may be noted that the Banking Act of 1933 amended the provisions of the National Bank Act so as to provide that a national bank may not hereafter be organized with a capital stock of less than \$50,000.

"Mr. Cady's letter indicates that it will not be possible for many banks to increase their capital stock to \$25,000 by July 1, 1936, before which date they must become members of the Federal Reserve System in order to retain the benefits of insurance under the provisions of Section 12B of the Federal Reserve Act, through the sale of stock in the communities in which they are located. However, such banks may make application to the Reconstruction Finance Corporation to purchase their preferred stock or, if the laws of the State in which they are located do not permit them to sell the preferred stock, to purchase their capital notes or debentures, in order to enable the banks to become eligible for membership in the Federal Reserve System. In this connection, your attention is called to the fact that bills have recently been introduced in Congress (S. 2789) and (H.R. 8016) which would amend Section 9 of the Federal Reserve Act so as to specifically provide that for the purposes of membership in the Federal Reserve System the terms 'capital' and 'capital stock' shall include the amount of outstanding capital notes and debentures issued by the applying bank and purchased by the Reconstruction Finance Corporation."

Approved.

2/28/34

-16-

Letter to Mr. N. S. Calhoun, President of the Security National Bank, Greensboro, North Carolina, reading as follows:

"Receipt is acknowledged of a copy of your letter of February 5, 1934, addressed to the Federal Deposit Insurance Corporation, regarding the question whether banks may deduct from the amount of deposits eligible for deposit insurance the total amount of uninvested trust funds deposited in the banking department, when satisfactory collateral has been deposited in the trust department fully to protect such trust funds.

"The question which you raise involves an interpretation of the statute relating to the insurance of bank deposits, which is administered by the Federal Deposit Insurance Corporation, and the matter therefore does not fall within the jurisdiction of the Federal Reserve Board."

Approved.

Letter dated February 27, 1934, approved by four members of the Board, to Mr. Edward Crede, Treasurer of The Union Trust Company of Pittsburgh, Pennsylvania, reading as follows:

"Your letter of December 1, 1933, a copy of which was also forwarded to the Board with your letter of December 13, 1933, asks several questions regarding Section 8A of the Clayton Act. The pressure of other important business has prevented an earlier reply to your questions, but it is assumed that you have already received the desired information through the Federal Reserve Bank of your district. However, in order to complete your files the answers to your questions are given below.

"You ask first whether the service of a corporation which assists its officers and employees to purchase its own stock on an installment payment plan comes within the provisions of that section. You do not describe the precise form of the transaction, but in the event that it constitutes a loan secured by stock or bond collateral, the provisions of that section would be applicable, since the section refers to a corporation 'organized for any purpose whatsoever' which shall make loans secured by stock or bond collateral.

"You also ask whether the section would be applicable to the service of a corporation which has made such loans in the past but which discontinued the practice on or before January 1, 1934. The section refers to corporations which 'shall make' loans of the kind described and it is therefore inapplicable to the service of a corporation which shall make no new loans of that character after the effective date of the section, January 1, 1934.



2/28/34

-17-

"You also ask whether the section is applicable to the service of a corporation which has made such loans in the past and which permits renewals thereof after January 1, 1934. The Federal Reserve Board has concluded that the section has reference only to new loans and that therefore it does not refer to a corporation which shall grant an extension of time within which to pay a loan previously made or which shall permit a renewal of such a loan.

"You also ask whether any exception will be made in the case of a corporation which makes loans merely incidentally to its principal business. The wording of the section would seem to leave no room for a construction which would make it inapplicable to a corporation making only occasional loans, provided the corporation actually makes loans of the kind referred to.

"Finally you ask whether the section would be applicable to the service of a corporation which assists its employees to purchase their homes, taking a mortgage on the property until it is fully paid for. It is not felt that a loan secured by a mortgage on a home may be classed as a loan 'secured by stock or bond collateral' within the meaning of Section 8A of the Clayton Act.

"In connection with your inquiries, it is important to note that the phrase 'organized or operating under the laws of the United States' in Section 8 and Section 8A of the Clayton Act includes national banks but does not include State member banks of the Federal Reserve System."

Approved.

Letter to an applicant for a permit under the Clayton Act, advising of approval of his application as follows:

Mr. S. Karl Davidson, for permission to serve at the same time as a director of the First National Bank at Beaver Falls, Beaver Falls, Pennsylvania, of The Old National Bank of New Brighton, New Brighton, Pennsylvania, and of the Beaver County Trust Company, New Brighton, Pennsylvania.

Approved.

There were then presented the following applications for original or additional 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>		
The Bradford National Bank, Bradford, Ohio	36	36

2/28/34

-18-

<u>Applications for ORIGINAL Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 6.</u>		
First National Bank in Elberton, Elberton, Georgia	36	36
<u>District No. 9.</u>		
First National Bank in Winthrop, Winthrop, Minnesota	36	36
<u>District No. 11.</u>		
Farmers National Bank of Newcastle, Newcastle, Texas	35	35
	<u>Total</u>	<u>141</u>

<u>Applications for ADDITIONAL Stock:</u>		
<u>District No. 2.</u>		
First National Bank in Callicoon, Callicoon, New York	3	
The Peoples National Bank & Trust Company of White Plains, White Plains, New York	<u>6</u>	9
<u>District No. 5.</u>		
First National Bank, Yorktown, Virginia	6	
Tryon Bank & Trust Company, Tryon, North Carolina	1	
Greenbrier Valley Bank, Lewisburg, West Virginia	3	
The Peoples Trust Company, Martinsburg, West Virginia	<u>138</u>	148
<u>District No. 7.</u>		
Holstein State Bank, Holstein, Iowa	1	
Tobacco Exchange Bank, Edgerton, Wisconsin	<u>2</u>	<u>3</u>
	<u>Total</u>	<u>160</u>

<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 1.</u>		
First National Bank, Van Buren, Maine	60	
First National Bank of Revere, Revere, Massachusetts	75	
National Bank of Bellows Falls, Bellows Falls, Vermont	<u>72</u>	207
<u>District No. 2.</u>		
The Burrows National Bank, Andover, New York	45	
The National Spraker Bank, Canajoharie, New York	180	
Conewango Valley National Bank, Conewango Valley, New York	<u>24</u>	249

2/28/34

-19-

<u>Applications for SURRENDER of Stock: (Continued)</u>		<u>Shares</u>	
<u>District No. 3.</u>			
The First National Bank, Johnstown, Pennsylvania	960		960
<u>District No. 4.</u>			
First-Farmers National Bank, Arcanum, Ohio	72		
First National Bank, Bethesda, Ohio	45		
First National Bank, Koppel, Pennsylvania	<u>45</u>		162
<u>District No. 5.</u>			
First National Bank, Logan, West Virginia	180		180
<u>District No. 6.</u>			
First National Bank, DeRidder, Louisiana	75		75
<u>District No. 7.</u>			
Lincoln National Bank, Lincoln, Illinois	210		
American National Bank of Woodstock, Woodstock, Illinois	<u>90</u>		300
<u>District No. 8.</u>			
First National Bank, Golconda, Illinois	40		
Sorento National Bank, Sorento, Illinois	<u>20</u>		60
<u>District No. 10.</u>			
First National Bank, Aurora, Colorado	18		
The Greeley Union National Bank, Greeley, Colorado	150		
The Stockgrowers National Bank, Ashland, Kansas	<u>60</u>		228
<u>District No. 12.</u>			
The Grays Harbor National Bank of Aberdeen, Aberdeen, Washington	180		
First National Bank, Conway, Washington	<u>18</u>		198
	<u>Total</u>		<u>2,619</u>

Approved.

2/28/34

-20-

Thereupon the meeting adjourned.

Chester Morrell  
Secretary.

Approved:

E. R. Brady  
Governor.