

A meeting of the Federal Reserve Board was held in Washington on Friday, March 2, 1934, at 11:10 a. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. Miller
Mr. Thomas
Mr. Szymczak
Mr. O'Connor

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Smead, Chief of the Division of
Bank Operations
Mr. Wyatt, General Counsel
Mr. Chase, Assistant Counsel

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on February 16 and 19, 1934, were approved and the actions recorded therein were ratified unanimously.

The Board then considered and acted upon the following matters:

Letter dated March 1, 1934, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, advising that, at a meeting of the board of directors on that date, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated February 28, 1934, from Mr. Wyatt, General Counsel, recommending that the temporary employment of Mrs. Dorothy M. Heathington as a stenographer in the legal division be extended for a period of three months from March 1, 1934, with compensation at the present rate of \$130 a month.

Approved.

Letter to the board of directors of the "Deer Lodge Bank and Trust Company", Deer Lodge, Montana, stating that, subject to the con-

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ditions 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 Minneapolis.

Approved.

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

"Receipt is acknowledged of Mr. Evans' letter of February 24, 1934, submitting for the Board's approval the form of capital debenture which the Peoples Bank and Savings Company of Cincinnati, Ohio, proposes to issue to purchasers other than the Reconstruction Finance Corporation. The Board approves the form of debenture submitted and it is understood that this form is substantially the same as the form of the capital debentures to be issued to the Reconstruction Finance Corporation by the Peoples Bank and Savings Company.

"Mr. Evans' letter was also accompanied by a copy of a proposed agreement between the Peoples Bank and Savings Company and the holders of claims against the bank arising from the loan of bonds to that institution. It is assumed that prior to admission to membership your office will furnish the Board with a recommendation as to what action it would be desirable for the Board to take with regard to the proposed agreement."

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 Milford National Bank', Milford, Ohio, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of \$50,000 par value preferred stock to the Reconstruction Finance Corporation and/or others, and that the released capital, together with a portion of the bank's surplus and undivided profits, shall be used to eliminate estimated losses and securities depreciation, all as set forth in your memorandum of February 19, 1934."

Approved.

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

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"The Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Thomson', Thomson, Georgia, from \$90,000 to \$50,000, provided that, before any of the proceeds of the reduction are returned to shareholders, the released capital shall be used to eliminate all losses and all depreciation in securities existing at the time of the reduction, and that the bank's surplus shall not be reduced below \$30,000, all as set forth in your letter of February 14, 1934."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Geneva', Geneva, Illinois, 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 released capital, together with \$10,000 from the surplus fund, shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of February 19, 1934."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves the reduction in common capital stock of 'The Covina National Bank', Covina, California, 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 released capital, together with \$25,000 of the bank's present surplus, shall be used to eliminate undesirable assets and securities depreciation, all as set forth in your letter of February 20, 1934."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Azusa', Azusa, California, from \$100,000 to \$80,000,

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"pursuant to a plan which provides that the bank's capital shall be increased by \$40,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate undesirable assets, all as set forth in your letter of February 16, 1934."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Elsinore', Elsinore, California, 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 released capital, together with a portion of the bank's undivided profits, shall be used to eliminate substandard assets and securities depreciation in the amount of approximately \$28,600, all as set forth in your letter of February 16, 1934."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves the reduction in the common capital stock of 'The First National Bank of San Jacinto', San Jacinto, California, 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 released capital shall be used to eliminate substandard assets and securities depreciation, all as set forth in your letter of February 16, 1934."

Approved.

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

"Please advise Palmer of Nelson, Palmer & Moses, Reconstruction Finance Corporation Agency Counsel, that with respect to four telegrams to you dated December 27, 1933, each beginning 'Ancigar' and each relating to Northwest Bancorporation, it is the intention of the Board that the only condition of the issuance of the limited

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"voting permit referred to in each such telegram was the furnishing of the agreement called for and that each permit when issued authorized the voting of stock of each subsidiary bank named in the telegram, irrespective of the voting of stock of any other bank and irrespective of compliance by any other bank with representations contained in such agreement."

Approved.

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

"Receipt is acknowledged of your letter of February 12, 1934, regarding examinations of State member banks to be made in connection with the required certification to the Federal Deposit Insurance Corporation.

"It is noted that it has been your practice to participate with State examiners in the examination of State member banks, making no charge against banks in the three States where the participation of your examiners is confined largely to work in connection with the bank's loans and securities, but charging the member banks in the two States where the initiative and responsibility in the examinations rest largely with your examiners. You state that, in order to complete the program, it will probably be necessary to make some independent examinations, and ask for advice as to whether the bank should be charged in such instances.

"The Board's letter of July 26, 1930, (X-6665), included the following provision:

'If a State examination is unsatisfactory, and an investigation will not provide sufficient information upon which the agents may act intelligently, a complete examination should be made for which the member bank should be charged. It is realized, however, that in some instances unusual circumstances may exist which would warrant the Board's exercising the discretion vested in it under the recent amendment and waiving charges for specific examinations. Any case which, in the opinion of the Federal reserve agent, warrants such special consideration should be submitted to the Board in advance, with a complete statement of the reasons why it is considered desirable to have the examination charges waived by the Board. Examinations of State banks incident to their admission to membership in the System may be made without charge.'

"In the circumstances, it is the Board's opinion that charges may properly be waived for examinations of State member banks made solely to develop the information required for certification to the Federal Deposit Insurance Corporation, and that in such instances the question of waiving the charge should be left to the determination of the Federal Reserve Agent. The Board feels, however, that in cases where the examination is regarded as a regular examination of the nature for which charges have consistently been made, the charge should not be

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"waived simply because of the fact that the report of examination will serve as a basis for certification to the Federal Deposit Insurance Corporation. It will be appreciated if you will advise the Board of each case in which a charge is not made for the examination giving a concise statement of the reasons why the charge was not made in the particular case."

Approved.

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

"This refers to Mr. Fletcher's letter of January 29, with inclosed application of the conservator of the Union National Bank, McKeesport, Pennsylvania, for the cancelation of 270 shares of stock of the Federal Reserve Bank of Cleveland.

"The Federal Reserve Board has been notified by the office of the Comptroller of the Currency that the conservatorship of the Union National Bank of McKeesport was terminated on January 30 for the purpose of transferring the acceptable assets of this bank to a new bank in the process of organization. However, as indicated in a letter dated February 9 sent to your bank by Mr. J. E. Fouts, Supervising Conservator, the Comptroller's office desires that the application of the conservator for cancelation of the Federal Reserve bank stock be approved and the proceeds of the stock delivered to Messrs. F. F. Roderick, J. W. Mader and Albert Ball, who have been named trustees for the unacceptable assets of the bank.

"In these circumstances, and in view of the fact that the Comptroller's office has furnished the Board a certificate to the effect, among other things, that the bank should not be permitted to transact any business except to such extent as may be necessary to liquidate its affairs, the Board approves the cancelation of 270 shares of stock of the Federal Reserve Bank of Cleveland outstanding in the name of the Union National Bank, McKeesport, Pennsylvania, and the payment of the proceeds thereof to Messrs. Roderick, Mader and Ball, provided the assent of the Board of Directors of the bank is first obtained in form acceptable to Counsel for your bank."

Approved.

Governor Black presented a memorandum dated February 28, 1934, from Mr. Smead, Chief of the Division of Bank Operations, with regard to a letter addressed to the Secretary of the Treasury by the Governor of the Farm Credit Administration under date of February 16, stating that the Administration desires to avail itself of the services of the Federal reserve banks, as

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fiscal agents of the United States, in order to facilitate the operations of the Federal Land Banks in exchanging bonds of the Federal Farm Mortgage Corporation for farm mortgages, it being understood that the Federal reserve banks will be reimbursed for all necessary expenses incurred by them in handling this work. The memorandum stated that the matter had been taken up informally with Mr. Smead by Mr. Broughton, Commissioner of the Public Debt; that the proposed method of handling the bonds of the Federal Farm Mortgage Corporation by the Federal reserve banks is similar to the present method of handling United States Government securities for the Treasury Department, with the exception that apparently it is proposed to utilize the services of some of the Federal reserve banks to a greater extent than is now the case in handling government issues; and that the vault facilities of some of the branches of Federal reserve banks are quite limited and the branch personnel, except at New Orleans, is not entirely familiar with all phases of fiscal agency work. The memorandum stated further that there appear to be no other objections to the Federal reserve banks, as fiscal agents of the United States, performing the services requested by the Farm Credit Administration, provided the detailed arrangements are satisfactory to the Federal reserve banks, and suggested that the Treasury Department be advised informally to this effect.

Mr. Smead was authorized to advise the Treasury Department in accordance with his suggestion.

There was also presented a memorandum dated January 20, 1934, from Mr. Chase, Assistant Counsel, and Mr. Tyler, Special Assistant Counsel, which had been circulated previously among the members of the

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Board, referring to the Board's letter of December 21, 1933, to Mr. Philip Lehman, with regard to his application, under Section 32 of the Banking Act of 1933, for permission to serve at the same time as a director of the Corn Exchange Bank Trust Company, New York, New York, and as senior partner of the firm of Lehman Bros., investment bankers; and submitting a letter dated January 2, 1934, from the Federal Reserve Agent at New York inclosing letters from Mr. Lehman and the Corn Exchange Bank Trust Company advising that the arrangement pursuant to which the bank participated with Lehman Bros. in the underwriting of certain issues of securities has been terminated and asking whether the fact that one of the two grounds for the Board's previous decision had thus been removed would result in the Board's granting the permit. The memorandum pointed out that it appears that certain sections of the Banking Act of 1933, including Section 32, were designed to effect the complete divorcement of commercial banking from the securities business because of the apparent conflict between the two, and stated that while Mr. Lehman is a man of the highest character and is a very desirable director of the bank, and the relations between the bank and Lehman Bros. have not been detrimental to the interests of the bank, his service at the same time as a director of the bank and as a partner of Lehman Bros. is clearly within the prohibitions of Section 32 of the Banking Act of 1933, and that, for the reasons stated in the memorandum, it seems that the one course open to the Board is to presume that relationships of the kind referred to in Section 32 will produce the results which led Congress to prohibit them, and to grant permits only in cases involving relationships which, while coming within the letter of the Section, are of

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a kind different from that which it appears to have been intended to cover. The memorandum also expressed the opinion that notwithstanding the changed conditions involved in Mr. Lehman's application, the application should be denied. Consideration was also given to a memorandum dated February 15, 1934, from Mr. Wyatt, General Counsel, which had also been circulated among the Board members, and which concurred in the views expressed in the memorandum above referred to.

Governor Black stated that he had read the memoranda carefully and, after considerable hesitation, had reached the conclusion on the basis of the apparent intent of Section 32, that the Board should adopt the policy of refusing all applications covering relationships of the kind prohibited by the section, except in cases where, while falling within the prohibited classes, the relationship is of a kind not intended to be covered by the statute and the issuance of a permit would not be incompatible with the public interest.

During the ensuing discussion, the other members present concurred in the opinion expressed by Governor Black, and the policy suggested by him was adopted.

Counsel was requested to prepare a letter to Mr. Lehman setting forth the Board's policy and stating that the Board is unwilling to approve his application.

In connection with the above, consideration was given to another memorandum dated February 15, 1934, from Mr. Chase, Assistant Counsel, and Mr. Tyler, Special Assistant Counsel, submitting seven applications of officers and directors of the following member banks for permission, under the provisions of Section 32 of the Banking Act of 1933, to serve also as directors of the Discount Corporation of New York, New York:

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ApplicantName of Bank or Banks

S. Sloan Colt

Bankers Trust Company,
New York, N. Y.

" " "

The National Bank of Tuxedo,
Tuxedo, N. Y.

James H. Perkins

The National City Bank of New York,
New York, N. Y.

Winthrop W. Aldrich

The Chase National Bank of the
City of New York, New York, N. Y.

Dunham B. Sherer

Corn Exchange Bank Trust Company,
New York, N. Y.

William C. Potter

Guaranty Trust Company of New York,
New York, N. Y.

W. S. Gray, Jr.

Central Hanover Bank and Trust
Company, New York, N. Y.

Gordon S. Rentschler

The National City Bank of New York,
New York, N. Y.

The memorandum stated that the Discount Corporation (the stock of which is owned or controlled by the New York banks listed above) serves the larger banks in America in assisting them to equalize their reserves, and in connection with that activity deals solely in bankers' acceptances and United States government securities, syndicates having no part whatever in the transactions; that it is believed that while the corporation is engaged primarily in the business of purchasing and selling or negotiating securities within the meaning of Section 32 of the Banking Act of 1933, it would not be incompatible with the public interest to grant the applications under consideration and that, for the reasons stated in the memorandum, it is submitted that the relationships are not of the kind which Section 32 intended to prohibit. The memorandum expressed the opinion that the New York banks above referred

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to are correspondent banks of the Discount Corporation within the meaning of Section 32 and the Board's Regulation R, and that the Corporation is a correspondent dealer of each of the banks, and suggested that the Federal Reserve Agent at the Federal Reserve Bank of New York be requested to advise the Corporation and each of the banks that, in the opinion of the Board, such relationships exist and that unless the Board issues permits therefor they may not continue. The memorandum also recommended that the applications under consideration be approved, except that final action on the application of Mr. Colt be deferred pending action on his application under the Clayton Act for permission to serve at the same time the Bankers Trust Company and the National Bank of Tuxedo, New York.

After discussion of the questions raised in the memorandum, during which consideration was given particularly to the activity of the Discount Corporation in purchasing and selling Federal reserve funds and the effect of such activity upon the operations of the Federal reserve banks, the memorandum was ordered circulated among the members of the Board.

Reference was then made to a memorandum dated February 20, 1934, prepared by Mr. Wyatt in accordance with the action taken at the meeting of the Board on February 1, 1934, following the consideration of the application of the Tradesmens National Bank of New Haven, Connecticut, for permission to exercise fiduciary powers. Prior to this meeting the memorandum had been circulated among the appointive members of the Board.

After a brief discussion, during which Mr. O'Connor stated that he had not had an opportunity to read Counsel's memorandum prior to the meeting, and, therefore, was not in a position to express an opinion with regard to the question referred to therein, action on the matter was deferred in order to afford him an opportunity to read the memorandum and to express his opinion at a later meeting of the Board.

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Governor Black reported briefly on his appearance before a Subcommittee of the Banking and Currency Committee of the House of Representatives yesterday in connection with the so-called Goldsborough bill to establish a Federal monetary authority, and on a conference which he had yesterday with the President regarding the proposal to establish credit banks for industry.

Mr. Goldenweiser joined the meeting and stated that he had just come from a conference with Congressman Steagall, Chairman of the Banking and Currency Committee of the House of Representatives, in connection with the bill which had been introduced in accordance with the suggestion contained in the Board's letter of February 13, 1934, and which provides for the further extension of the authority of Federal reserve banks to pledge government securities as collateral for Federal reserve notes, and that Congressman Steagall had stated that he would see that the bill passes the House today in the form in which it was passed by the Senate on February 28, 1934.

In response to Mr. Miller's request for a report as to the status of the Board's Annual Report for the year 1933, Mr. Goldenweiser stated that a draft of the text of the report had been prepared, and that he had hoped to go over it this week but that, because of other important matters, he would be unable to consider it until next week, following which it will be submitted to the Board.

Reference was also made to bill S. 2693, known as the Stock Exchange Bill, introduced by Senator Fletcher. The Board was advised that Governor Black had received a request from the Senate Banking and Currency Committee for a report on this bill and also a request from the Treasury

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Department for the preparation of a report for the Secretary of the Treasury pursuant to a request that he had received from the committee. It was stated that these requests had been referred to the staff to study the bill and submit to the Board drafts of reports for its consideration, and that the staff was engaged in this work.

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

Mr. Clarence H. Adams, for permission to serve at the same time as a director of The First National Bank of Denver, Denver, Colorado, and as a director and officer of The International Trust Company, Denver, Colorado.

Approved.

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

<u>Applications for ORIGINAL Stock:</u>		<u>Shares</u>	
<u>District No. 4.</u>			
The National Bank and Trust Company of Paris,		66	66
Paris, Kentucky			
<u>District No. 7.</u>			
First National Bank in Mayville,		36	36
Mayville, Wisconsin			
		<u>Total</u>	<u>102</u>
<u>Applications for ADDITIONAL Stock:</u>			
<u>District No. 2.</u>			
Bankers Trust Company,		3,000	
New York, New York			
Fulton Trust Company,		150	
New York, New York			
Manufacturers Trust Company,		<u>12,960</u>	<u>16,110</u>
New York, New York			
<u>District No. 6.</u>			
American National Bank in Winter Haven,		6	6
Winter Haven, Florida			
<u>District No. 7.</u>			
Detroit Savings Bank, Detroit, Michigan		<u>1,350</u>	<u>1,350</u>
		<u>Total</u>	<u>17,466</u>

Approved.

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Thereupon the meeting adjourned.

Chester Morrell
Secretary.

Approved:

E. R. Black
Governor.