

A meeting of the Federal Reserve Board was held in Washington on Monday, April 2, 1934, at 3:30 p. m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary

The minutes of the meetings of the Federal Reserve Board held on March 13, 17, 26, and 27, 1934, were approved.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on March 15, 20, and 23, 1934, were approved and the actions recorded therein were ratified unanimously.

The Board then considered and acted upon the following matters:

Letter dated March 29, 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 March 27, 1934, from Mr. Morrill, recommending the appointment of Mr. J. Edward Kilgore as an administrative assistant in the office of the Secretary, with salary at the rate of \$2,000 per annum, effective as of the date upon which he enters upon the performance of his duties. The recommendation was approved by six members of the Board on March 30, 1934.

Approved.

Memorandum dated March 27, 1934, from Mr. Wyatt, General Counsel,

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recommending the appointment of Mr. Joseph T. Owens as an assistant counsel in the legal division, with salary at the rate of \$5,000 per annum, effective as of the date upon which he enters upon the performance of his duties. The recommendation was approved by six members of the Board on March 30, 1934.

Approved.

Memorandum dated March 27, 1934, from Mr. Wyatt, General Counsel, recommending the appointment of Mr. Gray Williams as an assistant counsel in the legal division, with salary at the rate of \$5,000 per annum, effective as of the date upon which he enters upon the performance of his duties. The recommendation was approved by six members of the Board on March 30, 1934.

Approved.

Memorandum dated March 27, 1934, from Mr. Wyatt, General Counsel, recommending the appointment of Mr. Frederic Solomon as a law clerk in the legal division, with salary at the rate of \$2,400 per annum, effective as of the date upon which he enters upon the performance of his duties. The recommendation was approved by six members of the Board on March 30, 1934.

Approved.

Memorandum dated March 29, 1934, from Mr. Paulger, Chief of the Division of Examinations, recommending that, in view of the continued amount of work in the division, the temporary appointment of Mr. James F. Furbershaw as a stenographer be extended for an additional thirty days on the same terms as the previous employment. The recom-

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mendation was approved by four members of the Board on March 31, 1934.

Approved.

Letter dated March 30, 1934, to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, prepared in accordance with the action taken at the meeting on March 28, 1934, and approved by four members of the Board, reading as follows:

"At a meeting since the conference which the Federal Reserve Board had with certain directors of the Federal Reserve Bank of Philadelphia on Tuesday, March 27, the Federal Reserve Board reviewed the matters which were discussed with respect to the official personnel of the bank. The Board is profoundly interested in having the highest type of management in the Federal reserve banks, and the law places certain very definite responsibilities upon the Federal Reserve Board in this connection. At the same time the Board feels keenly that the duty of securing such management rests primarily with the board of directors of each Federal reserve bank. The Board understands that the directors of the Federal Reserve Bank of Philadelphia have given this responsibility serious consideration and that they have taken steps in the direction of strengthening the management of the bank. Nevertheless, the Board, after careful consideration of these changes, still feels that the bank is in need of a senior executive officer whose ability has been demonstrated in broad commercial banking experience of a responsible character, and it hopes that the board of directors of the Federal Reserve Bank of Philadelphia will continue to give their earnest consideration to this matter.

"With respect to the four cases involving promotions and salary increases submitted by the board of directors of your bank on which the Board had not taken favorable action, it has requested me to advise you that, effective April 1, 1934, it approves the salaries involved at the annual rates stated below:

C. A. McIlhenny,	Deputy Governor, Cashier, and Secretary	\$13,200
W. J. Davis,	Assistant Deputy Governor	10,000
L. E. Donaldson,	Assistant Deputy Governor	5,000
G. K. Morris	Assistant Cashier	5,000"

Approved.

Letter dated March 29, 1934, approved by three members of the

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Board, to the board of directors of the "Community Trust Company", Sayville, New York, stating that, subject to the conditions prescribed in the letter, the Board approves the institution's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York, effective if and when the Community Trust Company, with the approval of the Superintendent of Banks for the State of New York, is merged with The Oystermen's National Bank of Sayville under the charter of the Community Trust Company and under the name of The Oystermen's Bank and Trust Company.

Approved.

Letter dated March 30, 1934, approved by five members of the Board, to the board of directors of "The First State Bank", Ness City, Kansas, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved.

Letter dated March 30, 1934, approved by five members of the Board, to the board of directors of the "Bank of Albany", Albany, Oregon, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of San Francisco.

Approved.

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Telegram dated March 31, 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 your letter March 27, 1934 regarding membership application of The Mount Vernon Trust Company, Mount Vernon, New York. In view of information submitted and your recommendation Board extends to April 27, 1934, time within which bank may accomplish its membership in the System. It is noted that State examiner in his report of examination as of February 9, 1934, severely criticizes operations of trust department. Prior to admission of bank to membership you are requested to satisfy yourself that proper steps have been taken to effect the necessary corrections in the operations of the department and that the officers to be in charge are men of high standards, who, by experience, are fitted for the responsibilities to be assumed. In his earlier discussions with the Board's staff, President Cross advised that the trust department would be headed by a carefully selected trust officer from the outside.

"Board notes your comments regarding advisability of permitting bank to become a member pending an appeal from order approving reorganization and if this question arises it is requested that before issuing stock in the Reserve Bank to the applicant, full information regarding the developments in the litigation and the attitude of the public be submitted to the Board, together with your recommendation and opinion of Counsel for the Reserve Bank."

Approved.

Telegram dated March 30, 1934, approved by four members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, referring to the application of "The First State and Savings Bank of Holly, Michigan", for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to The First State and Savings Bank of Holly, Michigan, the Federal Reserve Bank of Chicago is authorized to cancel such stock

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and make a refund thereon.

Approved.

Telegram dated March 29, 1934, approved by five members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, referring to the application of the "Steiwer & Carpenter Bank", Fossil, Oregon, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Steiwer & Carpenter Bank, the Federal Reserve Bank of San Francisco is authorized to cancel such stock and make a refund thereon.

Approved.

Letter dated March 30, 1934, approved by five members of the Board, to the "National Bank of Toledo", Toledo, Ohio, 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, 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 Ohio, 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 fiduciary powers as set forth above. A formal certificate covering such authorization will be forwarded to you in due course.

"The Board feels that, if you are tendered any of the trusts now held by the First National Bank of Toledo, Toledo, Ohio, you should carefully scrutinize their condition and should not accept any of such trusts which, through their assumption, may be

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"detrimental to the interest of your institution."

Approved.

Letter dated March 30, 1934, approved by four 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 Central National Bank of New Rochelle', New Rochelle, New York, from \$300,000 to \$150,000, pursuant to a plan which provides that the bank's capital shall be increased by \$150,000 of class 'A' preferred stock to be sold to the Reconstruction Finance Corporation and \$100,000 of class 'B' preferred stock to be sold locally, that the released capital together with \$150,000 of the bank's surplus, undivided profits and reserves shall be used to eliminate \$300,000 of substandard assets, and that the funds received from the sale of preferred stock shall be used in reducing the bank's liability for borrowed money, all as set forth in your memorandum of March 21, 1934.

"In considering the plan under which the reduction in common capital is to be effected, it has been noted that the condition of this bank after the proposed eliminations are effected will still be far from satisfactory, and it seems probable that further corrections will be necessary in view of the excessive volume of criticised assets remaining in the bank. It has been noted also that your examiner severely criticises the bank's management, which he regards as unsafe and almost entirely lacking in ability. It is assumed, however, that you have these conditions in mind and that whenever it is feasible to do so you will obtain such further corrections as may be practicable."

Approved.

Letter dated March 29, 1934, approved by six 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 Fort Greene National Bank in New York', Brooklyn, New York, from \$500,000 to \$350,000, pursuant to a plan which provides that the bank's capital shall be increased by \$150,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that at least \$125,000 of the released capital shall be used to

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"eliminate unsatisfactory assets and the remainder credited to undivided profits, surplus or a reserve for contingencies, all as set forth in your memorandum of March 21, 1934."

Approved.

Letter dated March 30, 1934, approved by four 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 National Bank of Lake Ronkonkoma', Lake Ronkonkoma, New York, from \$25,000 to \$10,000, pursuant to a plan which provides that the bank's capital shall be increased by \$20,000 of class 'A' preferred stock to be sold to the Reconstruction Finance Corporation and \$20,000 of class 'B' preferred stock to be sold locally, that the released capital shall be used to eliminate substandard assets and securities depreciation, and that the funds received from the sale of the preferred stock shall be used in retiring the bank's liability for borrowed money, all as set forth in your memorandum of March 24, 1934.

"In considering the plan under which the reduction in common capital is to be effected, it was noted that securities depreciation remaining in the bank after the proposed adjustments will be sufficient to impair the common capital to the extent of approximately \$9,400. It is assumed, however, that you have this condition in mind and that whenever it becomes feasible to do so you will obtain such further corrections as may be practicable."

Approved.

Letter dated March 30, 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 March 21, 1934, with reference to your memorandum of February 19, 1934, in regard to a proposed reduction in the common capital of 'The Milford National Bank', Milford, Ohio, from \$100,000 to \$50,000 and the sale of \$50,000 of preferred stock to the Reconstruction Finance Corporation, which was approved by the Board on March 2, 1934.

"You advise that the Reconstruction Finance Corporation has informed your office that it is unwilling to agree to purchase more than \$25,000 of preferred stock, and recommend that the bank be permitted to reduce its common capital as originally proposed



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"but that the amount of preferred stock to be sold to the Reconstruction Finance Corporation be reduced from \$50,000 to \$25,000.

"In accordance with your recommendation, the Board approves the amendment of the original plan to provide for the sale of \$25,000 of preferred stock to the Reconstruction Finance Corporation as stated in your memorandum of March 21, 1934, with the understanding that the other provisions of the plan remain unchanged."

Approved.

Letter dated March 30, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Reference is made to your letter of March 13, 1934, recommending a reduction in the common capital stock of 'The Citizens National Bank of Montezuma', Montezuma, Georgia, from \$100,000 to \$50,000. While it is not entirely clear, it appears from your letter that upon the approval of the reduction, approximately \$21,357 of the released capital funds may be immediately applied to due and unpaid indebtedness of shareholders to the bank, and that the remainder of the released capital funds or approximately \$28,643 might be retained in the undivided profits account until at a later date it is paid as a dividend to the shareholders who are not indebted to the bank.

"The Board is of the opinion that a distribution of the released capital funds on such a basis, in the absence of a unanimous vote of shareholders, would not be warranted under the law. However, the Board approves the reduction in capital stock of the above named bank upon condition that any distribution of the released capital funds shall be on a pro rata basis to all stockholders, whether or not they are indebted to the bank, as of the same date, and that upon such distribution the amount of approximately \$21,357 thereof shall lawfully be applied to the due and unpaid indebtedness of shareholders to the bank."

Approved.

Letter dated March 29, 1934, approved by six 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 'National Builders Bank of Chicago', Chicago, Illinois, from

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"\$500,000 to \$250,000, pursuant to a plan which provides that the bank's capital shall be increased by \$250,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of March 19, 1934."

Approved.

Letter dated March 30, 1934, approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with the recommendation of Acting Comptroller Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Lockport', Lockport, Illinois, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital shall be increased by \$25,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with a portion of the surplus and undivided profits, shall be used to eliminate unsatisfactory assets, all as set forth in the Acting Comptroller's memorandum of March 22, 1934."

Approved.

Letter dated March 29, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of your memorandum of March 19, 1934, with reference to the proposed reduction in common capital of 'The Fourth National Bank of Tulsa', Tulsa, Oklahoma, from \$250,000 to \$125,000, and sale of \$175,000 of preferred stock to the Reconstruction Finance Corporation, which was approved by the Board on January 15, 1934.

"You advise that a change in the plan is contemplated whereby a further reduction of \$25,000 will be made in the common capital and an additional \$25,000 of preferred stock will be sold to the Reconstruction Finance Corporation.

"In accordance with your recommendation, the Board approves the amendment to the original plan as set forth in your memorandum of March 19, 1934, with the understanding that the full amount of the capital reduction will be applied to the elimination of substandard assets and that the other provisions of the plan as set

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"forth in your memorandum of January 5, 1934, remain unchanged."

Approved.

Letter dated March 29, 1934, approved by six 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 Seaboard National Bank of Los Angeles', Los Angeles, California, from \$2,000,000 to \$1,200,000, pursuant to a plan which provides that the bank's capital shall be increased by \$300,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to retire 20,000 shares of the bank's own stock (\$500,000 par value) and to eliminate sub-standard assets and securities depreciation in the amount of approximately \$382,000, all as set forth in your letter of March 10, 1934."

Approved.

Letter dated March 31, 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 United States National Bank of Eugene', Eugene, Oregon, from \$150,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$100,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate undesirable assets aggregating approximately \$81,000 and to establish a reserve for bond depreciation with the remainder of such funds, all as set forth in your letter of December 6, 1933."

Approved.

Letter dated March 31, 1934, approved by five members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"The Board has considered the application of 'The Norfolk Corporation of Braintree', Braintree, Massachusetts, for a general

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"voting permit under authority of Section 5144 of the Revised Statutes, as amended, entitling it to vote the stock which it owns or controls of 'The Braintree National Bank'. The Board has approved the application, effective if and when the applicant assumes the status of a holding company as defined in Section 2(c) of the Banking Act of 1933 and subject to the following conditions:

"(1) Prior to or simultaneously with the issuance of the voting permit applicant shall execute and deliver to you in triplicate an agreement in the form inclosed herewith marked Exhibit A and a certified copy of a resolution of its Board of Directors specifically authorizing the execution thereof.

"(2) Prior to or simultaneously with the issuance of the voting permit, there shall be delivered to the applicant by a certain Committee constituted under a Plan and Agreement dated August 7, 1933, formulated to further the interests of The Braintree National Bank, not less than 501 shares of the capital stock of The Braintree National Bank and such Committee shall pay to that bank not less than \$80,795 in cash as the purchase price of the following bonds:

<u>Par Value</u>	<u>Name</u>	<u>Rate</u>	<u>Due</u>
\$20,000	Associated Gas & Electric Co.	$4\frac{1}{2}$	1949
5,000	Associated Telephone Utilities	5	1942
10,000	Cons. Elec. & Gas Company	6	1937
10,000	" " " " "	3-6	1962
5,000	Central Public Utilities	$5\frac{1}{2}$	1952
5,000	Cities Service Company	5	1950
3,000	" " "	5	1969
5,000	North American Gas & Elec. Co.	6	1944
5,000	Pacific Northwest Public Service	6	1950
5,000	Utilities Power and Light	5	1959
10,000	Brown Company	$5\frac{1}{2}$	1950

"(3) Prior to or simultaneously with the issuance of the voting permit Counsel for the Federal Reserve Bank of Boston shall deliver to you his opinion that the agreement referred to in (1) above has been validly executed and delivered and that the delivery of stock and payment of cash referred to in (2) above have been properly effected.

"There is inclosed a general voting permit which you are authorized to date and to issue to The Norfolk Corporation of Braintree upon the fulfillment of the conditions specified above. A copy of the permit and a copy of the form of agreement referred to as Exhibit A are inclosed for your files.

"Will you please advise the Board of the date of issuance of the permit and forward for its files two of the original counterparts of the agreement called for and one copy of the opinion of Counsel referred to in (3) above."

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Approved, together with a letter dated March 31, 1934, also 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 Braintree National Bank', Braintree, Massachusetts, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$50,000 of preferred stock to be sold to the Reconstruction Finance Corporation and/or others, that the released capital shall be used to remove estimated losses and depreciation in bonds, and that a corporation organized for the purpose shall purchase from the bank not less than \$80,000 of low grade bonds which sale shall operate to eliminate at least \$60,000 of depreciation in the bank's bond account, all as set forth in your letter of March 8, 1934.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted that, even allowing for the use of all of the bank's remaining surplus, undivided profits and reserves for losses to eliminate depreciation in securities, there is no provision for the elimination of such depreciation aggregating approximately \$24,000, which, if considered as a loss, impairs the common capital stock to that extent. There will also remain in the bank \$12,312 of doubtful and \$177,291 of slow assets. It is also noted that your examiner does not regard the bank's management as safe. It is assumed, however, that you have these conditions in mind and that whenever it becomes feasible to do so, you will require such further corrections as may be practicable."

Telegram dated March 31, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, stating that the Board has considered the application of the "J. Henry Schroder Banking Corporation", New York, New York, for a voting permit under the 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 "J. Henry Schroder Trust Company", New York, New York, and has authorized the issuance of a limited permit to the applicant for the following purpose:

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"At any time prior to June 1, 1934, to act upon a proposal or proposals to increase the capital stock of such trust company from \$700,000 to \$1,000,000 and its surplus from \$350,000 to \$400,000 by the issue of preferred and/or common stock or otherwise and to amend the certificate of incorporation of such trust company accordingly."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the J. Henry Schroder Banking Corporation, a limited voting permit in accordance with the telegram.

Approved.

Telegram dated March 29, 1934, approved by five members of the Board, to the governors of all Federal reserve banks, reading as follows:

"Referring TRANS 1977 bank's contribution to retirement system as reported in current expense reports, Form 96, and expenses of retirement system as reported in new unit in functional expense reports, Form E, should represent amounts charged to current expenses of bank. Contributions for employees whose salaries are not included in current expenses, whether reimbursed to bank or charged to an account such as 'Other real estate', should be charged to the same account as are the salaries of such employees. Contributions for which bank receives reimbursement, or which are charged to an account such as 'Other real estate', should be based on the current rate only, i.e., they should not include any charge on account of accrued liabilities. The Retirement Committee will advise you of rate to be charged until the current rate for your bank has been determined by actuarial computation. Until further notice, please furnish Board monthly with statement showing total expenditures account retirement system charged to: (a) Current expenses and (b) to other accounts, whether or not reimbursable, specifying the amount charged to each such account."

Approved.

Letter dated March 30, 1934, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, prepared in accordance with the action taken at the meeting of the Executive Committee of

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the Board on March 23, 1934, and approved by five members of the Board, reading as follows:

"As you know, Mr. John W. Pole, as Special Adviser to the Board, made a survey during December and January of banking and other conditions in Puerto Rico and submitted a report thereon to the Federal Reserve Board. A copy of the report is inclosed for your information, together with copies of the reports of examination made by Mr. K. E. Prickett, National Bank Examiner, of the Banco Popular de Puerto Rico and the Banco de Puerto Rico, both of San Juan, referred to in Mr. Pole's report. Copies of the reports of examination of the Banco de Ponce and the Credito y Ahorro Ponceño, both of Ponce, which were made by Messrs. J. A. Mitchell and E. F. Lamb of the Federal Reserve Bank of New York, are already in your files.

"Mr. Pole's report has been given careful consideration by the Federal Reserve Board, and at a recent meeting the position was taken that, on the basis of the report and other information available to the Board, it would not be desirable at the present time and under existing conditions to extend the privileges of membership to banks in Puerto Rico.

"Mr. Pedro J. Rosaly, Manager of the Banco de Ponce, and Mr. Angel A. Sanz, Manager of the Credito y Ahorro Ponceño, were in Washington on March 27, 1934, and discussed with the Reconstruction Finance Corporation the conditions under which the corporation would purchase capital debentures issued by each of the institutions, and it was decided that the condition that the banks become members of the Federal Reserve System would not be imposed. Messrs. Rosaly and Sanz have advised the Board that their banks, therefore, will not file applications for membership.

"It will be appreciated if you will inform the Banco Popular de Puerto Rico and the Banco de Puerto Rico of the position taken by the Federal Reserve Board as set forth above, stating in each case that if, notwithstanding the Board's position, the bank desires to file an application for membership, the application should be submitted through your office."

Approved.

Letter dated March 30, 1934, approved by five members of the Board, to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board has reviewed the report of examination of the Federal Reserve Bank of Philadelphia as of October 21, 1933, copies of which were left with you and Governor Norris.

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"In the report of the preceding examination (as of October 15, 1932) the examiner commented on the very unsatisfactory condition of the Credit Department, stating that there was insufficient information available for an appraisal of much of the paper held. The Board is pleased to note that the examiner now reports that on the whole there has been considerable improvement in this respect and that the management has stated that its efforts to obtain the necessary credit data would be continued.

"It has been noted (page 16) that on the date of examination the bank was holding \$1,000,000 tax warrants, all in default, of the City of Atlantic City, New Jersey, that some of the collections of delinquent taxes had not been applied toward the payment of the respective warrants but were used for current operations, and that the Reserve Bank and the Central Hanover Bank & Trust Company of New York City, which also held some of the warrants, were contemplating taking early action to force the City of Atlantic City to provide proper protection for the warrants held by them. It will be appreciated if you will advise the Board as to the present status of this situation.

"The examiner reports (page 43) that, on the date of examination, a suit was pending against the City of Ocean City, New Jersey, in which the Reserve Bank sought to obtain payment of \$250,000 on a tax anticipation note of the City of Ocean City, which was acquired by the Reserve Bank under repurchase agreement from the First National Bank of Ocean City (suspended) and on which the City of Ocean City has denied any liability. In a letter dated December 15, 1933, Governor Norris advised that the Reserve Bank had every expectation of being successful in the litigation and of recovering the bulk, if not all, of the obligation. The Board would appreciate advice as to the present status of the matter.

"The Board is pleased to note (page 27) that the recommendation of its examiner has been adopted and that audits of the Fiscal Agency Department will be enlarged in scope so as to provide for a checking of all subscriptions received. The examiner has recommended also (page 27) that audits of the Transit Department be occasionally enlarged in scope so as to include a control on incoming mail for a period of time subsequent to the date of the audit, and states that the Comptroller of the bank advised him that full consideration would be given the recommendation. The Board would like to be advised as to the conclusions reached in this respect.

"On page 28 the examiner comments on the incompleteness of the records of the Personnel Department, as evidenced by the fact that no record is kept of absences of officers or of secretaries to the senior officers, and that absences of all employees in the Bank Relations Department are not reported. He further states that, due to a misunderstanding, leaves of absence in excess of thirty days in one year had been granted on account of sickness to several employees without the approval of the Executive Committee.



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"The Board notes that it is proposed that in the future all leaves of absence in excess of thirty days on account of illness in one year will be submitted to the executive committee for approval and that a proper record of all absences will be maintained hereafter. The Board's letter of December 5, 1932, contemplated that all sick leave in excess of thirty days would be approved by the board of directors rather than the executive committee, and such procedure should be followed by your bank.

"It has been noted (page 28) that in a number of instances officers and employees have drawn their salaries or a portion thereof in advance at times other than when the regular pay day fell within a vacation period. The Board notes with approval that the recommendation of its examiner will be followed and that hereafter salary advances will be made only in exceptional cases and that no payment will be made at any time which exceeds the amount of accrued salary on the date of such payment.

"It has been noted (page 72) that securities were being held in safekeeping for various receivers of closed banks, and it will be appreciated if you will advise the Board as to the nature of such safekeeping accounts. In this connection, the Board feels that, while there is no objection to retaining the securities held in safekeeping at the time of suspension of a member bank until the receiver has had an opportunity to make other arrangements, new deposits of securities should not be accepted.

"It has been observed (page 26) that as of the date of the examination, analyses of reports of examination of a number of State member banks, some of which had been examined as early as May and June of last year, had not been forwarded to the Board. An inspection of the Board's files shows that, while many of the analyses of such reports have since been received, in most instances a considerable period of time (in some cases more than six months) elapsed between the date of the examination and the date the analysis of such report of examination was received. While the Board is familiar with the heavy responsibilities placed upon examination departments during the past year and is aware of the handicaps placed upon your department by reason of the illness of the Assistant Federal Reserve Agent immediately in charge of the examination work, it feels that every effort should be made to complete and forward the analyses of reports of examination of State member banks as soon as possible. The Board would appreciate advice from you as to the present status of such work in the Examination Department and information as to what steps have been taken to expedite the handling of the analyses.

"The examiner comments (page 29) on the large number of vault custodians and representatives of the Audit Department who hold combinations to compartments containing securities, and the difficulty because of the large number of employees designated for such duties of placing responsibility in the event of any shortage. The examiner states that he was advised that a study would be made

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"of the situation with the view of limiting the number of persons having access to the securities. In this connection it would appear that, in the annual audit of the Custody Department, the auditors who had been assigned to custody control work during the year (some fifteen in number) may be called upon to verify their own work, which is not a desirable situation. The Board would appreciate learning the results of the study of the custody control and the steps, if any, which have been or will be taken to improve the situation.

"The Board's examiner has reported that he discussed with you the advisability of strengthening the Audit Department of the bank, and any comments you may have to make in this connection will be appreciated.

"After the report and this letter have received the consideration of the board of directors of the Federal Reserve Bank, the Board would appreciate advice from you as to what action has been taken or will be taken on the matters discussed."

Approved.

Letter dated March 31, 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, reading as follows:

"This refers to the letter from the Acting Clerk of your Committee dated February 19, 1934, requesting a report to your Committee on bills S. 2370 introduced by Senator Capper on January 11 (calendar day, January 17), 1934, S. 2642 introduced by Senator King on February 6 (calendar day, February 7), 1934, and S. 2693 introduced by you on February 6 (calendar day, February 9), 1934. Each of these bills contains provisions which would regulate stock exchanges and transactions in securities thereon.

"As you will recall on March 23, 1934, at the invitation of your Committee, I appeared before it and expressed the views of the Federal Reserve Board with reference to the bill H. R. 8720 now pending in the House of Representatives and entitled 'A Bill to provide for the regulation of national securities exchanges and of over-counter markets operating in interstate and foreign commerce or through the mails, and to prevent inequitable and unfair practices thereon, and for other purposes'.

"In the circumstances a further report with respect to the subject of the Senate bills above mentioned would seem to be unnecessary."

Approved.

Letter dated March 31, 1934, approved by five members of the

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Board, to Honorable Sam Rayburn, Chairman of the Interstate and Foreign Commerce Committee of the House of Representatives, reading as follows:

"This refers to your letter of March 12, 1934, in which you request a report on the bill H.R. 8575 entitled 'A Bill to establish a Federal Stock Exchange Commission, to provide for the licensing of stock exchanges, and for other purposes', introduced by Mr. Bulwinkle on March 10, 1934. As indicated by its title, this bill contains provision for the licensing of stock exchanges and for the regulation of transactions thereon.

"On March 19, 1934, however, you introduced H.R. 8720, entitled 'A Bill to provide for the regulation of National Securities Exchanges and of over-counter markets operating in interstate and foreign commerce or through the mails, and to prevent inequitable and unfair practices thereon, and for other purposes'; and, as you will recall, on March 23, 1934, at the invitation of your Committee, I appeared before it and expressed the views of the Federal Reserve Board with reference to the latter bill.

"In the circumstances a further report with respect to the subject of H.R. 8575 would seem to be unnecessary."

Approved.

Telegram dated March 29, 1934, approved by five members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Referring your March 23 letter, Board revokes approval application The Citizens National Bank in Hammond, Louisiana, for Federal Reserve bank stock granted March 14, 1934, and approves new application for 36 shares made pursuant to resolution adopted at meeting of Board of Directors held on March 20, 1934, effective if and when Comptroller of the Currency authorizes bank to commence business."

Approved.

Letter to Mr. A. K. Bowes, Vice President of The Peoples National Bank and Trust Company of White Plains, New York, reading as follows:

"Your letter of March 19, 1934, addressed to the Comptroller of the Currency regarding the payment of interest on dormant balances in your trust department, has been referred to the Federal Reserve Board for reply. You state that the payment of

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"interest is required under Court regulations with respect to such funds.

"Section 19 of the Federal Reserve Act as amended forbids a member bank, directly or indirectly, to pay interest on any deposits payable on demand, except in accordance with a contract entered into in good faith prior to June 16, 1933, and in force on that date; and a member bank is required to eliminate from any such contract any provision for the payment of interest on deposits payable on demand as soon as possible consistently with its contractual obligations. This prohibition is applicable, irrespective of the department of the bank in which the deposits may be held, and irrespective of the fact that the payment of interest is required with respect to such deposits under court regulations. It will be noted, however, that the prohibition is applicable only to the payment of interest on deposits. Accordingly, if the dormant balances referred to in your letter are segregated from the general assets of the bank and are otherwise subjected to the safeguards ordinarily imposed upon the custody and use of trust funds so that they are not properly to be classified as deposits, the prohibition here involved would not apply. The Board does not have sufficient information, however, to enable it to determine whether the funds in question constitute deposits and it cannot, therefore, express an opinion with respect to the question whether interest may lawfully be paid upon such funds.

"In this connection, your attention is called to the fact that the prohibition here in question is applicable only to deposits which are payable on demand and does not prevent a member bank from paying interest on time deposits in accordance with the provisions of the Board's Regulation Q.

"If you should have any further questions with respect to this matter it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of New York who will be glad to consider any such questions which you may submit."

Approved.

Letter dated March 31, 1934, approved by five members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of Mr. Swanson's letter of February 13, 1934, with inclosures, in regard to the payment of interest on certain time certificates of deposit issued by the Farmers State Bank, Victor, Montana. It is understood that the precise issue presented is whether the bank, which it is stated was admitted to membership on December 7, 1933, may lawfully pay

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"interest, accruing after October 31, 1933, on a time deposit at a rate in excess of 3 per cent per annum, compounded semi-annually, in accordance with the terms of a valid and binding contract entered into in good faith after June 16, 1933, but before admission of the bank to membership in the Federal Reserve System.

"If the Farmers State Bank should refuse to discharge its lawful obligations to pay interest on time certificates of deposit issued prior to the date of its admission to membership because of the prohibition contained in Section III, subparagraph (c) of the Board's Regulation Q, presumably a suit would lie at the instance of each holder of such a certificate and an enforceable judgment would be entered against the bank which the bank would be forced to satisfy whether or not such action would come within the terms of the prohibition aforesaid. Furthermore, it should be noted that the expressed intent of the statute with respect to the payment of interest on deposits payable on demand is that the provisions in regard thereto shall not apply to the payment of interest on any deposit with respect to which the payment of interest is required under the terms of a valid and binding contract entered into prior to June 16, 1933, the date the statute became effective, and that in the Board's regulations a similar exception is made in the case of time deposits. Since the provisions of the Act do not become effective with respect to a bank applying for membership until the bank is admitted into the System, it would seem that the principle underlying the exception aforesaid may properly be applicable in a situation such as that under discussion.

"In view of the foregoing, the Board will offer no objection to the payment of interest by the Farmers State Bank, Victor, Montana, in accordance with the terms of any contract lawfully entered into in good faith prior to the date of, and not in contemplation of, the admission of such bank to membership in the System, and in force on that date, provided such contract may not be legally terminated or modified by the bank at its option and without liability. It should be understood that no such contract may be renewed or extended unless it be modified to conform to the provisions of Regulation Q, and that the bank will take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all such contracts into conformity with the provisions of such regulations. If the bank pays interest, accruing after October 31, 1933, on any such time deposit at a rate in excess of 3 per cent per annum, compounded semiannually, it must be prepared to show, if requested, that such payment was made in good faith and in strict accordance with the position taken herein."

Approved.

Telegram dated March 30, 1934, approved by four members of

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the Board, to Mr. Hale, Cashier of the Federal Reserve Bank of San Francisco, reading as follows:

"Re your inquiry of March 13 as to whether deposits of funds advanced to State treasurers to be used as revolving funds in connection with construction of public highways are deposits 'of public funds made by or on behalf of any State' within the meaning of Section 19 of the Federal Reserve Act. Board understands that title to such funds is not vested in State, that any excess of funds remaining after completion of project for which such funds are to be used must be returned to Government, and that State treasurer acts simply in capacity of disbursing officer for Government. In view of foregoing, Board concurs in your conclusion that such deposits are not deposits of 'public funds made by or on behalf of any State' which would be subject to exemption with respect to payment of interest on deposits payable on demand."

Approved.

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

"Re your inquiry whether prohibition in Act of May 24, 1926 against use of word 'Federal' applies to corporations organized under Section 5 of Home Owners' Loan Act of 1933. In view of fact that said Section 5 expressly provides that institutions organized thereunder shall be known as 'Federal Savings and Loan Associations' and that Act of May 24, 1926, specifically provides that prohibition in question shall not apply 'to any corporation organized under the laws of the United States', it appears that prohibition is not applicable to Federal Savings and Loan Associations organized under Section 5 of Home Owners' Loan Act of 1933. It is suggested that in future matters involving legal questions be referred in first instance to counsel for Federal Reserve Bank in order that such counsel may determine necessity or desirability of submitting matters to Board for ruling."

Approved.

Letter dated March 29, 1934, approved by six members of the Board, to Mr. Charles A. Stone, New York, New York, reading as follows:

"The Federal Reserve Board has given consideration to your application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of Bank of the

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"Manhattan Company, and as officer and director of Stone & Webster and Blodget, Inc., a dealer in securities, both of New York City, New York.

"The Federal Reserve Board has reached the conclusion that it was the intent of the Congress in enacting Section 32 to terminate all relationships of certain types between member banks and dealers in securities, apparently because it felt that such relationships might tend to influence the banks' credit and investment policies and their advice to their correspondent banks and other customers respecting investments in a manner which the Congress deemed to be incompatible with the public interest. The Board accordingly feels that it may not properly grant permits authorizing relationships which are actually of the kind referred to in that section, and that its authority to issue permits should be exercised only in exceptional cases; for example, those which are included within the literal terms of the statute but which are actually of a kind different from those at which its provisions were directed.

"It appears that Stone & Webster and Blodget, Inc., is primarily engaged in buying, selling, and dealing in investment securities and that, therefore, the relationship covered by your application is within the class which that section was designed to terminate. Accordingly, the Board is unable to find that it would not be incompatible with the public interest as declared by the Congress to grant your application, even though nothing has been called to its attention which would reflect in any degree upon your desirability as a director of the bank, except that the relationship covered by your application is within the prohibitions of Section 32.

"In the event that you desire to submit further facts or arguments in support of your application, the Board is prepared to give them careful consideration. However, any such additional facts or arguments should be submitted as promptly as possible, in writing, through the Federal Reserve Agent."

Approved.

Letters dated March 29, 1934, approved by five members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. J. L. Gaddis, for permission to serve at the same time as a director of The Jackson-State National Bank, Jackson, Mississippi, and as a director and officer of the Merchants & Planters Bank, Raymond, Mississippi.

Mr. E. D. Foster, for permission to serve at the same time as a director and officer of The First National Bank of Thomas, Thomas,

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Oklahoma, and as a director of The Citizens-Farmers National Bank of Chickasha, Chickasha, Oklahoma.

Mr. J. Barboglio, for permission to serve at the same time as a director and officer of The Helper State Bank, Helper, Utah, and as a director and officer of The First National Bank of Price, Price, Utah.

Mr. Wm. G. Reed, for permission to serve at the same time as a director of the First National Bank of Seattle, Seattle, Washington, and as a director and officer of the First National Bank of Shelton, Shelton, Washington.

Approved.

Letters dated March 30, 1934, approved by five members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. C. L. Pattison, for permission to serve at the same time as a director and officer of The Pattison National Bank of Elkland, Elkland, Pennsylvania, and as a director and officer of The First National Bank of Knoxville, Knoxville, Pennsylvania.

Mr. William Whitridge, for permission to serve at the same time as a director of The Western National Bank of Baltimore, Baltimore, Maryland, and as a director of The Colonial Trust Company, Baltimore, Maryland.

Mr. Wilkins W. Jackson, for permission to serve at the same time as a director and officer of The Albertville National Bank, Albertville, Alabama, as a director of The National Bank of Boaz, Boaz, Alabama, and as a director of the Bank of Arab, Arab, Alabama.

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>	
First National Bank in Indiana, Indiana, Pennsylvania	153
The First National Bank at McKees Rocks, McKees Rocks, Pennsylvania	108



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<u>Applications for ORIGINAL Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 4. (Continued)</u>		
First National Bank at Moundsville, Moundsville, West Virginia	<u>66</u>	327
<u>District No. 7.</u>		
The Farmers & Merchants National Bank of Winterset, Winterset, Iowa	36	36
	<u>Total</u>	<u>363</u>
<u>Applications for ADDITIONAL Stock:</u>		
<u>District No. 4.</u>		
The Farmers National Bank of Somerset, Somerset, Kentucky	7	
The Athens National Bank, Athens, Ohio	24	
The First National Bank of Baltimore, Baltimore, Ohio	6	
The First National Bank & Trust Co. of Hamilton, Hamilton, Ohio	<u>30</u>	67
<u>District No. 6.</u>		
The First National Bank of Valdosta, Valdosta, Georgia	3	3
<u>District No. 9.</u>		
The First National Bank of Montgomery, Montgomery, Minnesota	3	
The First National Bank of Waterville, Waterville, Minnesota	3	
The First National Bank of Grantsburg, Grantsburg, Wisconsin	<u>3</u>	9
<u>District No. 10.</u>		
The First National Bank of Limon, Limon, Colorado	5	
The Continental National Bank of Lincoln, Lincoln, Nebraska	<u>90</u>	95
<u>District No. 12.</u>		
The Anglo California National Bank of San Francisco, San Francisco, California	60	
The Continental National Bank & Trust Company of Salt Lake City, Salt Lake City, Utah	<u>180</u>	240
	<u>Total</u>	<u>414</u>
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 1.</u>		
The Union and New Haven Trust Company, New Haven, Connecticut	150	150

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<u>Applications for SURRENDER of Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 2.</u>		
First National Bank in Avon-by-the-Sea, Avon-by-the-Sea, New Jersey	36	36
<u>District No. 6.</u>		
The First National Bank of Fort Myers, Fort Myers, Florida	120	120
<u>District No. 7.</u>		
Drexel State Bank of Chicago, Chicago, Illinois	120	
The First National Bank of Montour, Montour, Iowa	27	147
	<u>Total</u>	<u>453</u>

Approved.

Thereupon the meeting adjourned.

Chester Merrill  
Secretary.

Approved:

E. R. Black  
Governor.