

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Tuesday, April 17, 1934, at 3:15 p. m.

PRESENT: Mr. Hamlin, Presiding
Mr. Thomas
Mr. Szymczak

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

The Committee considered and acted upon the following matters:

Memorandum dated April 13, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the temporary appointment of Mrs. E. Louise Gardner as a clerk in the division be extended for a period of three months from May 12, 1934, with salary at the present rate of \$1,440 per annum. The recommendation was approved by four members of the Board on April 16, 1934.

Approved.

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

"Your letter April sixteenth. Board approves temporary appointment of the sixteen men to be borrowed from Guaranty Trust Company and National City Bank as assistant examiners in Federal Reserve Agent's department your bank at their present salary rate effective upon assuming duties. Please advise effective dates."

Approved.

Letter dated April 16, 1934, approved by four members of the Board, to Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"In its letter of March 16, 1934, with regard to salaries of certain officers of the Federal Reserve Bank of Chicago, the Board stated that it would endeavor to work out some practical course of action by which proposed changes in salaries of officers of Federal reserve banks might be considered somewhat informally in advance of

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"the submission of definite recommendations of the boards of directors of Federal reserve banks, so that the Board on the one hand might be informed more adequately as to the views and reasons of the directors of the Federal reserve banks, and on the other hand the directors might have an opportunity to ascertain the reasons which would impel the Federal Reserve Board to its conclusions with respect to their recommendations.

"Since the date of the letter above referred to, the Board has given careful consideration to this matter, and the plan which it now has in mind would provide that at some time before important changes in salaries of officers are made, which ordinarily take place as of the first of the year, the directors of the bank would consider informally what action they desire to take and arrange to have either the chairman of the board or a committee of the directors call upon the Board's committee for the Chicago district and go over the matter with a view to arriving at an understanding, subject, of course, to the Board's formal action in the usual way when the regular schedule of salary rates for the succeeding year is submitted. Such a conference might well be arranged late in November so as to allow ample time for the further consideration of adjustments that might seem advisable as the result of such a conference.

"It will be appreciated if you will bring the above plan to the attention of the directors of your bank and advise the Board whether they have any comments or suggestions to make with regard thereto."

Approved, together with a similar letter, also dated April 16, 1934, and approved by four members of the Board, to the chairmen of all other Federal reserve banks except New York.

Letter dated April 16, 1934, approved by five members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the telephone request of Mr. Fenner, the copies of the report of examination of The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, as of June 17, 1933, which were submitted in connection with the application of the bank for permission to establish branches at Ardmore and in Upper Darby Township, are returned herewith. It is understood that these are the only copies which you had, and that they are needed in connection with the review of the condition of the bank and in connection with the next examination of the institution. These reports became a part of the records of the Federal Reserve Board when submitted with the application,

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"and you are requested, therefore, to retain these reports with your records as Federal Reserve Agent, and to keep them available to the Board at any time."

Approved.

Letter dated April 16, 1934, approved by four members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"This refers to Mr. Young's letter of March 15, 1934, in connection with the amount of Federal Reserve bank stock held by The Peoples National Bank of Lawrenceburg, Lawrenceburg, Indiana.

"The Board's examiners state that when this matter was discussed during the recent examination of your bank, Mr. Young was advised that while the holding of the stock by The Peoples National Bank of Lawrenceburg might be in order, there was not sufficient information to determine the procedure by which The Peoples National Bank of Lawrenceburg absorbed the Dearborn National Bank, that the matter was discussed informally and the suggestion made that such information be obtained, and if there was then any question as to the right of The Peoples National Bank of Lawrenceburg to continue to hold the excess amount of stock in the Federal Reserve Bank, the subject be referred to the Federal Reserve Board.

"You were advised by the Board on April 6, 1931 that 'The Board is in receipt of information from the Comptroller of the Currency that under the Act of November 7, 1918, as amended February 25, 1927, the Peoples National Bank of Lawrenceburgh, Lawrenceburg, Indiana, No. 2612, with capital stock of \$125,000 and the Dearborn National Bank, Lawrenceburg, Indiana, No. 7909, with capital stock of \$50,000, were consolidated on April 4, 1931, under the charter of The Peoples National Bank of Lawrenceburgh, No. 2612, and under the title of 'The Peoples National Bank of Lawrenceburg', with capital stock of \$175,000.'

"In the circumstances, therefore, The Peoples National Bank was not required to surrender any of its holdings of Federal Reserve bank stock. It is assumed, however, that in accordance with the procedure outlined in the Board's letters of November 1, 1923, X-3874, and of January 9, 1925, X-4239, the bank has been advised that it has the option of surrendering the excess holdings of such stock."

Approved.

Letter dated April 16, 1934, approved by four members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

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"Reference is made to your letters of January 16, 1934, and February 3, 1934, relative to the assumption as of December 29, 1933, of the deposit liabilities of the Riverside State Bank, Riverside, Texas, a nonmember bank, by the Huntsville Bank and Trust Company, Huntsville, Texas, a member bank.

"In view of the statement contained in your letter of January 16, 1934, to the effect that the deposit liabilities thus assumed were offset in full by cash deposited with the Huntsville Bank and Trust Company, which information has subsequently been confirmed by an inspection of the bank's books by one of your examiners in connection with an examination as of February 24, 1934, and that, accordingly, it would appear that the transaction has resulted in no change in the character of the assets of the Huntsville Bank and Trust Company, or broadening in the functions now exercised by it, within the meaning of the general condition under which it was admitted to the Federal Reserve System, the Board interposes no objection to the transaction provided, of course, that it has been approved by the Commissioner of Banking for the State of Texas.

"It has been noted from information submitted with your letter of February 3, 1934, that your Counsel is satisfied with the legal aspects of the absorption contract and that in Counsel's opinion the transaction has resulted in no change in the corporate existence of the Huntsville Bank and Trust Company which might affect its membership in the Federal Reserve System."

Approved.

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

"Refer your telegram April 14, 1934. Board grants extension of time to May 18, 1934 within which 'First Trust and Savings Bank of Pasadena', Pasadena, California may accomplish its admission to membership."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Marathon', Marathon, New York, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital shall be increased by \$25,000 Class 'A' preferred stock to be sold to the Reconstruction Finance Corporation and \$25,000 Class 'B'

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"preferred stock to be sold locally, and that the released capital, together with such portion of the surplus and/or undivided profits as you may require, shall be used to eliminate estimated losses and securities depreciation, all as set forth in your memorandum of April 10, 1934."

Approved.

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

"Receipt is acknowledged of your supplemental memorandum of April 10, 1934, with reference to your memorandum of January 24, 1934, in regard to a proposed reduction in the common capital of 'The Fulton County National Bank and Trust Company of Gloversville', Gloversville, New York, from \$500,000 to \$250,000 and the sale of \$300,000 of preferred stock to the Reconstruction Finance Corporation, which was approved by the Board on January 31, 1934.

"It has been noted that the Reconstruction Finance Corporation has agreed to purchase only \$150,000 of preferred stock in the applicant bank, and that you now recommend that the bank be permitted to reduce its common capital stock from \$500,000 to \$350,000, pursuant to a plan which provides for the sale of \$150,000 of preferred stock and for the use of the released capital to reduce the book value of the bank's bond account.

"In accordance with your recommendation, the Federal Reserve Board approves the amended plan, all as set forth in your supplemental memorandum of April 10, 1934."

Approved.

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

"Receipt is acknowledged of the memorandum of Acting Comptroller of the Currency Awalt dated April 9, 1934, in regard to the proposed reduction in the capital stock of 'The Manufacturers National Bank of Troy', Troy, New York, which was approved by the Board on December 30, 1933, in accordance with the plan as set forth in your memorandum of December 22, 1933.

"Mr. Awalt advises that another examination was made of the bank as at the close of business February 15, 1934, and submits for the Board's consideration an amended plan on the basis of the new report of examination.

"In accordance with Mr. Awalt's recommendation, the Board amends its previous approval of the proposed capital reduction to provide for the transfer of \$500,000 from the bank's surplus to

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"undivided profits and for the use of such funds, together with the released capital and such portion of the reserve for contingencies as may be necessary, to eliminate the estimated losses and depreciation in securities in the lower grades as classified by your examiner in his report of examination of February 15, 1934, it being understood that the other provisions of the plan of capital reduction remain unchanged."

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 Erie National Bank of Philadelphia', Philadelphia, Pennsylvania, from \$500,000 to \$300,000 pursuant to a plan which provides that the bank's capital shall be increased by \$200,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate substandard assets and securities depreciation in the amount of approximately \$140,000 and to increase the surplus and/or undivided profits accounts by approximately \$60,000, all as set forth in your letter of April 10, 1934, and the accompanying files."

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 Lawrenceville', Lawrenceville, Georgia, 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 shall be used to eliminate approximately \$11,000 of unsatisfactory assets and to increase the bank's surplus by approximately \$14,000, all as set forth in your letter of April 11, 1934."

Approved.

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

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"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Dundee', Dundee, 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 shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of April 9, 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 Gibson', Gibson City, Illinois, from \$80,000 to \$35,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$25,000 of preferred stock to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate approximately \$42,700 of unsatisfactory assets and to augment the surplus account \$2,000, all as set forth in your memorandum of April 9, 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 Peterson', Peterson, Iowa, 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 part of the undivided profits of the bank and a contribution of \$5,000 to be made locally, shall be used to eliminate substandard assets in the amount of approximately \$32,555, all as set forth in your memorandum of April 9, 1934."

"In considering the plan under which the proposed reduction in capital is to be effected, it was noted that your examiner regards the bank's management as incompetent and unsafe and states that in his opinion any corrections made in this bank that did not include an improvement in management would be a wasted effort. It is assumed that whenever it is feasible to do so you will require such changes as may be practicable."

Approved.

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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 Fairmont National Bank', Fairmont, Minnesota, from \$50,000 to \$20,000, pursuant to a plan which provides that the bank's capital shall be increased by \$30,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate unsatisfactory assets which will remain the property of the bank, all as set forth in your memorandum of April 9, 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 Gogebic National Bank of Ironwood', Ironwood, Michigan, from \$100,000 to \$50,000, pursuant to a plan which provides for the sale of \$50,000 preferred stock to the Reconstruction Finance Corporation, and provides also that \$25,000 of the released capital will be used to eliminate unsatisfactory assets and \$25,000 used to set up a reserve for contingencies, all as set forth in your memorandum of April 9, 1934."

Approved.

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

"In accordance with the recommendation of Acting Comptroller of the Currency Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The Whitesboro National Bank', Whitesboro, Texas, 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 shall be used to eliminate or reduce undesirable assets, all as set forth in the Acting Comptroller's letter of April 5, 1934."

Approved.

Letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve

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Bank of Dallas, reading as follows:

"Reference is made to your letter of March 6, 1934, your telegram of March 30, and the Board's letter to you of April 4, 1934, relative to the agreement signed by 'H. Kempner' in connection with the issuance of a limited permit to vote the stock of 'The United States National Bank of Galveston', Galveston, Texas, and to the plan of rehabilitation of the capital structure of such bank.

"The agreement which the Board required the applicant to execute as a condition precedent to the issuance of the limited permit was based upon the condition of the bank as indicated by the report of examination by W. W. Pierce as of January 30, 1934, and his criticisms relative to certain practices which are indicated on 'Sheet 1 to page 11' and 'Sheet 1 to page B'.

"Under date of April 4, 1934, the Board forwarded a letter to the Comptroller of the Currency, a copy of which was forwarded to you, amending its previous approval of the proposed capital reduction to provide for the use of the released capital to eliminate approximately \$482,000 of undesirable assets, the balance of approximately \$18,000 to be credited to a reserve for contingencies, all as set forth in a letter of the Comptroller of the Currency under date of March 31, 1934, it being understood that the other provisions of the plan of capital reduction remain unchanged.

"The agreement which the applicant executed contained the following:

'That the undersigned applicant 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.'

"When the applicant has caused The United States National Bank of Galveston to adjust its capital structure in accordance with the amended plan of capital reduction referred to in the Board's letter to the Comptroller of the Currency under date of April 4, 1934, a portion of the above agreement will have been complied with. However, the above mentioned agreement was made sufficiently comprehensive to include the criticisms made by the examiner on 'Sheet 1 to page 11', namely:

- '2. Credit Files: Current financial statements should be required from directors and borrowers of unsecured and large lines to reflect worth and indicate ability to pay credit granted.

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- '3. Bonds & Securities: Depreciation set up in loss column places these in satisfactory condition, however stocks should be disposed of, also bonds that have no listed market value should have attention to remove from assets.
- '4. Loans & Discounts: Have substantial amount of slow paper with small amount of doubtful, warranting attention to collect.'

and on 'Sheet 1 to page B', namely:

'Policies of this bank are shaped by the Kempner family who own 5937 of the 1000 (should be 10,000) shares of stock and have apparently conducted the business more for their personal interests than has been beneficial to the bank. There is now in the loans 370M to them and interests in which I. H. Kempner is largely interested. The Sugarland Industries has loss estimated, Vice President R. Lee Kempner assures the examiner that there will be a very substantial reduction in this line during this year.

'The worth of the Kempner brothers is an unknown quantity, no statement is furnished by the individuals and one furnished of H. Kempner, a "trust" estate in which they are all interested, is not current and consists of such assets, that value is indeterminate and shows involved condition. The large line of the Imperial Sugar Co., a Kempner interest is believed to be secured and under conditions handled, safe, however, is probably larger than this bank should undertake.'

These criticisms are of such nature and importance that they merit careful consideration.

"You are requested to call these matters to the attention of the applicant with a view to determining to what extent the causes of such criticisms have been corrected and require that any remaining causes of these criticisms be entirely removed at the earliest practicable date."

Approved.

Telegram dated April 16, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Referring Board's letter of April 11, all state bank members which on April 30 are operating under license issued by the Secretary

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"of the Treasury should be required to submit reports on Form 231."

Approved.

Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"The Federal Reserve Board has received from the Secret Service Division of the Treasury Department the following memorandum:

'The Secret Service has received information to the effect that tellers in some banks throughout the country are converting to their own use gold coins surrendered to their bank by customers.

'It is therefore requested that officials of banks be circularized and asked to warn their tellers that this practice is in violation of law.'

"You are requested to bring this matter to the attention of all of the State member banks in your district."

Approved.

Telegram dated April 16, 1934, approved by three members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Retel April 12. In accordance with your recommendation Board extends for thirty days from April 13, 1934, time within which Central Farmers Trust Company of West Palm Beach, Florida, must obtain and file agreements of its holding company affiliates on F.R.B. Form P-5."

Approved.

Draft of a letter to Senator Fletcher, Chairman of the Banking and Currency Committee of the Senate, prepared for the signature of the Secretary of the Treasury in accordance with a request received under date of March 28, 1934, from Mr. William H. McReynolds, Administrative Assistant to the Secretary of the Treasury. The letter, which was approved by four members of the Board on April 16, 1934, read as follows:

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"Reference is made to the letter from the Acting Clerk of your committee, dated March 21, 1934, inclosing a copy of S. 3101, 'A Bill to provide for the creation of credit banks for industry, and for other purposes', and requesting a report thereon.

"This bill was prepared in the offices of the Federal Reserve Board and incorporates the conclusions of the Board which were reached after careful consideration of the present credit needs of industry and commerce.

"In the judgment of this Department, there exists an undoubted need for credit facilities for industry and commerce beyond those that are now being supplied through the commercial banks or that can be supplied through the ordinary operations of the Federal Reserve System acting within the limitations of the Federal Reserve Act. In brief, the need is for loans to provide working capital for commerce and industry, and such loans necessarily must have a longer maturity than those rediscounted by Federal reserve banks. It is believed that this type of credit requirement can best be met through organizations associated with the Federal reserve banks and operating under the general direction and supervision of the Federal Reserve Board. With that thought in mind, Bill S. 3101 was drafted, and, in the opinion of this Department, would meet the requirements of the situation.

"As you know, since S.3101 was introduced, a substitute measure has been proposed by Senator Glass which has had the consideration of your committee."

Approved.

Letter dated April 16, 1934, approved by four 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 of April 9, 1934, from the Acting Clerk of your Committee, requesting a report on S. 3304, entitled 'A Bill To amend section 51 of the Judicial Code'. The bill would amend said section 51 to permit a stockholder to institute suit on behalf of a corporation, when such corporation is a necessary party defendant, in any district in which suit might have been brought by such corporation for the same purposes.

"It does not appear that the matter is one which comes within the jurisdiction of the Federal Reserve Board and, in view thereof, the Board does not feel that it should undertake to express any opinion with respect to the desirability of the amendment proposed in S. 3304."

Approved.

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Letter dated April 16, 1934, approved by four 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 of April 9, 1934, from the Acting Clerk of your Committee, inclosing a copy of S. 3316, entitled 'A Bill To postpone until June 16, 1935, the operation of section 21(a)(2) of the Banking Act of 1933', and requesting a report thereon.

"Section 21, paragraph (a), subdivision (2) of the Banking Act of 1933 makes it unlawful, after June 16, 1934, for any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to engage in the business of receiving deposits, unless the individual or organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal reserve bank of the district and shall make and publish periodic reports of its condition. It appears that the prohibition upon the acceptance of deposits will not be applicable to any person or association which submits to periodic examination and which makes and publishes periodic reports of its condition, and, in view thereof, the Board knows of no reason why the operation of these provisions should be postponed. However, if your Committee believes it is desirable to postpone the effective date of these provisions, the Board offers no objection to the enactment of the bill S. 3316.

"Your attention is invited to the fact that the provisions of subdivision (2), paragraph (a) of said Section 21 are somewhat uncertain as to meaning. It is not clear whether a person or organization desiring to submit to periodic examination has the right to select for such purpose either the Comptroller of the Currency or the Federal reserve bank of the district, or whether it is the intent of the law that the Comptroller of the Currency or the Federal reserve bank shall determine which of such authorities shall be selected by a person or organization desiring to submit to examination thereunder. It should also be noted that neither the Comptroller of the Currency nor the Federal reserve bank has the right to take any action to require the correction of any irregularities which may be disclosed by such an examination, or to exercise any regulatory powers over a person or organization so submitting to examination, and that no penalty is provided for publication of a false report. In view of the foregoing, the Board respectfully suggests that your Committee consider the desirability of making such amendments to Section 21, paragraph (a), subdivision (2) as may be necessary to clarify its provisions

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"and to provide an effective means of supervising and regulating any person or organization submitting to examination as provided therein."

Approved.

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

"On April 11, 1934, Mr. C. S. Young, Assistant Federal Reserve Agent of your bank, left with Mr. DuBois, an assistant counsel to the Board, a letter dated April 9, 1934, from James F. Toy, President of The Toy National Bank and the Farmers Loan and Trust Company, both of Sioux City, Iowa, to Mr. Dunn, General Counsel of your bank, a letter from Mr. Toy to Mr. Young dated April 2, 1934, and a copy of a Deed of Trust, dated May 28, 1932, by and between Mr. Toy as party of the first part and the Farmers Loan and Trust Company, as party of the second part, creating an irrevocable trust to be known as the James F. Toy Bank Stock Trust. Under this Deed of Trust Mr. Toy transferred shares of stock of certain banks to the Farmers Loan and Trust Company, as trustee, to be held in trust for the purposes set forth. It is understood that a ruling of the Board is requested as to whether by reason of the Deed of Trust any organization is a holding company affiliate, as defined in Section 2(c) of the Banking Act of 1933, of one or more of the banks, the stock of which is now held in this trust.

"Section 2(c) of the Banking Act of 1933 defines a holding company affiliate as a corporation, business trust, association or other similar organization which is in a position to exercise controlling influence over a member bank in any one of certain ways specified in the definition. No 'business trust' is created by the Deed of Trust, but the Farmers Loan and Trust Company is a corporation and the question is therefore raised whether by reason of its position as trustee under this Deed of Trust it falls within the scope of the statutory definition.

"The Attorney General of the United States in answer to a question propounded by the Secretary of the Treasury has stated in an opinion that

'it does not seem objectionable to say that I perceive the force of your Solicitor's conclusion that ownership and control through majority stockholding does not include a holding by a bank merely as executor or in some other such fiduciary or representative capacity, subject to control by a court, or by a beneficiary or a principal, and without the incentive and opportunities which might arise from a holding of the stock by the bank as its own property'.

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"Under the terms of the Deed of Trust here considered the corporate trustee holds the stock constituting the corpus of the trust as trustee and without the incentive or opportunity for private profit, but it determines the manner in which such stock is to be voted and in so doing apparently is not subject to control by any court, beneficiary or principal. It is therefore the opinion of the Board that if it holds under the Deed of Trust more than 50 per centum of the outstanding number of shares of the stock of any member bank or more than 50 per centum of the number of shares of the stock of any such bank voted for the election of directors at the preceding election, the Farmers Loan and Trust Company is a holding company affiliate of such bank or banks and the stock of such bank or banks owned or controlled by it, either in its capacity as trustee or otherwise, may not validly be voted unless it first obtains from the Board a voting permit under authority of Section 5144 of the Revised Statutes of the United States, as amended.

"The Board is not in possession of sufficient facts to rule definitely that no other organization is a holding company affiliate of any of the member banks whose stock is held in this trust, but it is believed that the foregoing ruling is determinative of the doubt which prompted the inquiry submitted by Mr. Young. You are requested to advise Mr. Toy of the Board's conclusion and to furnish the Farmers Loan and Trust Company with a copy of the Board's Regulation P and copies of the Board's printed form of application for a voting permit. The two letters from Mr. Toy referred to in the opening paragraph of this letter are returned to you herewith."

Approved.

Letter to Mr. J. W. Wray, Manager of the Consolidated Finance Corporation, Delta, Colorado, reading as follows:

"Your letter of March 6, 1934, addressed to the Comptroller General, requesting to be advised whether a member State bank would be violating any provision of law by maintaining a separately incorporated automotive and industrial finance concern within the banking quarters of the bank, and managed by the officers of the bank, has been referred to the Federal Reserve Board for reply.

"It does not appear that there is any provision of the law under which State banks are admitted to membership in the Federal Reserve System which would prohibit the maintenance of a separately incorporated automotive and industrial finance concern within the banking quarters occupied by a member bank. The Federal Reserve Board feels, however, that it is not in accord with sound policy for a depository banking institution to share its banking quarters with other corporations; and it is the practice of the Board, in admitting banks to membership, to require as a condition precedent

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"to membership that the offices of any corporation located in the same quarters with the bank be removed therefrom within a reasonable time.

"It has been noted that the automotive and industrial finance concern is managed by the officers of the bank, but sufficient information has not been furnished to enable the Board to determine whether the automotive and industrial finance concern is an affiliate of the member bank and subject to the provisions of law applicable to affiliates of member banks and the Board has not attempted to pass upon that question.

"You have not referred in your letter to any particular member bank, and, if you desire more definite advice on the basis of the facts involved in the particular case, it is suggested that you communicate with the Federal Reserve Agent, the Board's local representative, at the Federal Reserve Bank of Kansas City, furnishing him with full information as to the facts involved."

Approved.

Telegram to Governor Calkins of the Federal Reserve Bank of San Francisco, reading as follows:

"In view of statements contained in your wire of April 13, Board will offer no objection to your continuing to carry temporarily special trust accounts for the five named California nonmember state banks now in conservatorship."

Approved.

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

"This refers to Mr. Sargent's letter of March 22nd, 1934, with inclosure, and your telegram of April 12, 1934, making certain inquiries with regard to the Crocker First Federal Trust Company of San Francisco.

"It is understood that this trust company at the present time is conducting both a banking and trust business but that it has in contemplation a plan under which all of the banking business will be transferred to the Crocker First National Bank, also of San Francisco, with the result that thereafter the trust company will transact a trust business exclusively. Mr. Sargent's first inquiry is whether the trust company could qualify for membership in the Federal Reserve System after this plan has been consummated.

"It is understood further that all of the stock of the trust company is owned by the stockholders of the national bank and that under the provisions of a trust created by such stockholders at the

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"time of the organization of the trust company, their interests therein are evidenced by an indorsement on the outstanding stock certificates of the national bank. Mr. Sargent's second inquiry is whether in the event that the trust company is not admitted to membership in the Federal Reserve System prior to June 16, 1934, a special permit could be obtained from the Federal Reserve Board permitting such a stock relationship to remain undisturbed, in view of the provisions of Section 5139 of the Revised Statutes of the United States, as amended by Section 18 of the Banking Act of 1933.

"In connection with Mr. Sargent's first inquiry, Section 9 of the Federal Reserve Act provides in part as follows:

'Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, including Morris Plan banks and other incorporated banking institutions engaged in similar business, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal Reserve bank organized within the district in which the applying bank is located.'

"Section 1 of the Federal Reserve Act contains the following definition of the word 'bank':

'Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company except where national banks or Federal reserve banks are specifically referred to.'

"Inasmuch as the institution in question after the transfer of its banking business to the Crocker First National Bank would still be a State Trust company, it would come within the definition of the word 'bank' contained in the first section of the Federal Reserve Act.

"In passing upon applications by State banks for membership in the Federal Reserve System, however, the Federal Reserve Board is required by Section 9 to consider, among other things, whether the corporate powers exercised are consistent with the purposes of the Federal Reserve Act. In view of that provision, the Board in certain circumstances has heretofore declined to permit a State trust company to become a member of the Federal Reserve System when it appeared that such trust company was not doing a banking business in the usual sense. While the Board, of course, in the absence of an application cannot undertake to pass finally upon the question whether the Crocker First Federal Trust Company should be admitted to membership,

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"if the plan referred to above is put into consummation, there would at least be a substantial doubt as to whether the corporate powers exercised by the trust company and the character of its business would be consistent with the purposes of the Federal Reserve Act and the Board would not be inclined to approve the admission of the institution to membership in the Federal Reserve System.

"With regard to Mr. Sargent's second inquiry, Section 18 of the Banking Act of 1933 amending Section 5139 of the Revised Statutes of the United States, provides as follows:

'After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank'.

"You will observe that this requirement is mandatory and since the Board is given no discretion nor power in the premises, it has no authority to issue a permit permitting a relationship of the kind described between a member bank and a non-member institution to continue in effect after June 16, 1934. The understanding of Mr. Avenali that such a permit has been issued by the Board in another case is mistaken."

Approved.

Letter dated April 16, 1934, approved by four members of the Board, to Mr. J. Wilson Dayton, The Bayside National Bank, New York, New York, reading as follows:

"Your letter of November 2, 1933, addressed to the Deputy Comptroller of the Currency, has been referred to the Federal Reserve Board for reply. You ask whether the service of one of the directors of your bank as a director of the Nassau-Suffolk Bond and Mortgage Guarantee Company at Minneola, Long Island, is prohibited by the Banking Act of 1933. Your inquiry evidently has reference to the provisions of Section 32 of that Act.

"You describe the business of that company as consisting in the making of mortgages on real estate and the selling of such

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"mortgages, as well as certificates of participation issued in series against pools of such mortgages held in trust, to its customers, with its guarantee, deducting a part of the interest as its compensation.

"Section 32 of the Banking Act of 1933 prohibits certain relationships between member banks and organizations engaged in the business of purchasing and selling 'securities'. The answer to your question therefore depends upon whether such mortgages and participation certificates are 'securities' within the meaning of that section.

"One of the principal purposes of the Banking Act of 1933 was to effect a separation of commercial and investment banking, and it appears that Section 32 of that Act was designed to aid in the accomplishment of this purpose. Although there may be mortgage notes of a kind which should be classified as 'securities' for the purposes of Section 32, the Federal Reserve Board is of the opinion that mortgage notes arising out of the ordinary type of direct loan on real estate are not 'securities' within the intentment of Section 32, and that neither such notes nor the mortgages securing the same should be classified as 'securities' in determining whether an organization engaged in dealing in such obligations comes within the scope of Section 32.

"The Board has further reached the conclusion that it is not possible to lay down any general rule as to whether certificates of participation based on mortgages are included, or are not included, within the term 'securities' in Section 32, since such certificates of participation vary so widely in character. Accordingly, if you desire a ruling on this question with respect to any particular certificates, it is suggested that there be submitted a sample copy of the form of certificate of participation employed, as well as a detailed description of the manner in which such participations are created and issued, and information as to the maturity of the obligation, whether it constitutes part of an 'issue', the total amount of such issue, if any, and the number and size of the units, the manner in which the certificates are distributed and sold to investors, the purpose for which the certificates are issued, whether they are designed to be more or less actively traded in, whether they are in form negotiable, whether they are 'registered' and transferable on the books of the issuer, and whether they are commonly known as 'securities' by persons dealing therein.

"It is requested that such information be submitted to the Federal Reserve Agent at the Federal Reserve Bank of your district in order that he may transmit it to the Federal Reserve Board with his comments.

"Your attention is called to the fact that Section 32 refers to organizations which are engaged 'primarily' in the business of purchasing, selling, or negotiating securities, and it may be that

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"even if the corporation to which you refer is engaged in that type of business it is not engaged 'primarily' in such business. The question is essentially a question of fact which must be decided on the basis of all the facts and circumstances of each particular case; and no fixed rule based on percentages of business transacted or income received can be laid down for deciding whether or not an organization is engaged 'primarily' in the business referred to. If you desire a ruling upon this question in connection with the corporation named in your letter, it is suggested that you furnish the Federal Reserve Agent at the Federal Reserve Bank of your district with a full description of the various types of business transacted and of their relation to each other, and, for each of the past three years, a statement of the gross and net profits derived from each type, of total gross and net profits, of the total volume of transactions in each type of business, and of total volume of business."

Approved.

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

"Receipt is acknowledged of Mr. McAdams' letter of February 24, 1934, with inclosures as stated, relating to the applicability of Section 32 of the Banking Act of 1933 and of Section 8A of the Clayton Act, as amended, to the services of Messrs. H. M. Langworthy and Joseph F. Porter as directors of Union National Bank of Kansas City and of Midwest Industrial Mortgage-Loan Company.

"From the information submitted, the following facts appear: The company was organized by certain individuals in Kansas City as a so-called mortgage loan company in order that it might be eligible to borrow from the Reconstruction Finance Corporation under Section 5 of the Reconstruction Finance Corporation Act. Under its plan of operation, it will lend on a secured basis to local industries which will be required to purchase stock in the company. As security for such loans, the company will receive a variety of collateral including mortgages on real and personal property and, in some cases, stock or bond collateral. To obtain the funds for the loans to such industries, the company will borrow from the Reconstruction Finance Corporation in each case the amount to be loaned to each industry. Each such loan will be secured by the note of the company's borrower, the security thereto, and obligations of the United States purchased with the proceeds of the borrower's stock subscription.

"On the basis of the information submitted, the Federal Reserve Board concurs in the opinion of your counsel on both of the questions presented. In the opinion of the Board, Midwest Industrial Mortgage-Loan Company is not 'engaged primarily in the business

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"of purchasing, selling, or negotiating securities', but rather in the business of loaning money. Therefore, Section 32 does not prohibit Messrs. Langworthy and Porter from continuing to serve at the same time as directors of the company and as directors of the bank.

"However, it is the opinion of the Board that, if the company actually makes any loans after January 1, 1934, to others than its own subsidiaries, secured by stock or bond collateral, the services of Messrs. Langworthy and Porter at the same time as directors of the company and of the bank will be unlawful under the provisions of Section 8A of the Clayton Act, as amended. Since, as you know, the Board's authority to issue permits covering relationships within the prohibitions of the Clayton Act is limited, under Section 8 of that Act, to the issuance of permits covering relationships between banking organizations of certain types, the Board is without authority to issue permits exempting the services in question from the provisions of Section 8A, if Midwest Industrial Mortgage-Loan Company is not a banking organization within the meaning of the Clayton Act."

Approved.

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

"Receipt is acknowledged of your letter of April 10, 1934, regarding the applicability of the Clayton Act to the service of Mr. Sam Taub as director of the Houston branch of your bank.

"It appears that Mr. Taub is not connected with any organization making loans secured by stock or bond collateral, although one of the firms with which he is connected has made such loans in the past and still has a few such loans outstanding. It appears, however, that that firm does not contemplate making any further loans of that character. As stated in the Board's letter of December 19, 1933, X-7721, Section 8A of the Clayton Act has reference only to organizations which 'shall make' such loans after the effective date of the section, January 1, 1934. It therefore appears that Section 8A of the Clayton Act is not now applicable to Mr. Taub's service as a director of the Houston branch."

Approved.

Letters dated April 16, 1934, approved by four members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

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Mr. Frank Kirchman, for permission to serve at the same time as a director of The Lawndale National Bank of Chicago, Chicago, Illinois, and as a director of the Western State Bank, Cicero, Illinois.

Mr. R. E. Milligan, for permission to serve at the same time as a director and officer of the State Bank of Bement, Bement, Illinois, and as a director and officer of the First National Bank of Ivesdale, Ivesdale, Illinois.

Mr. E. W. Dilling, for permission to serve at the same time as a director and officer of The First National Bank of Fletcher, Fletcher, Oklahoma, and as a director and officer of the Farmers State Bank, Sterling, Oklahoma.

Mr. Nelson Morris, for permission to serve at the same time as a director of The Mid-City National Bank of Chicago, Chicago, Illinois, and as a director of the Drovers National Bank in Kansas City, Kansas City, Missouri.

Mr. L. B. Mast, for permission to serve at the same time as a director and officer of The Stone Fort National Bank of Nacogdoches, Nacogdoches, Texas, and as a director of The First National Bank of Cushing, Cushing, Texas.

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. 5.</u>		
First National Bank at Salem, Salem, West Virginia	36	36
<u>District No. 8.</u>		
The First National Bank at Paris, Paris, Arkansas	33	
The Malvern National Bank, Malvern, Arkansas	33	66
	<u>Total</u>	<u>102</u>
<u>Applications for ADDITIONAL Stock:</u>		
<u>District No. 2.</u>		
J. Henry Schroder Trust Company, New York, New York	210	210
<u>District No. 6.</u>		
First National Bank of Hattiesburg, Hattiesburg, Mississippi	132	132

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<u>Applications for ADDITIONAL Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 7.</u>		
The First National Bank of Elgin, Elgin, Illinois	120	
The First National Bank of Denison, Denison, Iowa	9	129
<u>District No. 9.</u>		
The Grafton National Bank, Grafton, North Dakota	9	9
<u>District No. 10.</u>		
Stockyards National Bank of South Omaha, South Omaha, Nebraska	249	
The First National Bank of Fairbury, Fairbury, Nebraska	30	
The Hastings National Bank, Hastings, Nebraska	42	
National Bank of Commerce of Lincoln, Lincoln, Nebraska	60	381
	<u>Total</u>	<u>861</u>

Approved.

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

W. H. ...
Chairman, Executive Committee.