A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Monday, April 30, 1934, at 3:00 p. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor

The Committee considered and acted upon the following matters:

Memorandum dated April 26, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Miss Helen R. Grunwell as a draftsman in the division, with salary at the rate of $1,600 per annum, effective June 1, 1934, subject to her passing a satisfactory physical examination. The recommendation was approved by six members of the Board on April 28, 1934.

Approved.

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

"Re application First Trust and Savings Bank of Pasadena. Instructions in Board's letter of February 17, 1934 that before accepting payment from the First Trust and Savings Bank for capital stock in the Reserve Bank you satisfy yourself that the acquisition of the business of the First National Bank of Pasadena has been effected on terms satisfactory to the Superintendent of Banks of the State of California, to the Comptroller of the Currency, and to you, should be interpreted, of course, to permit admission of the State bank to membership simultaneously with its absorption of the national bank."

Approved.

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

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Reserve Bank of New York, reading as follows:

"Reference is made to the analysis of the report of examination of the Herkimer County Trust Company, Little Falls, New York, conducted by State authorities as of October 21, 1933.

"The analysis indicates that estimated losses together with unclassified depreciation in securities below the four highest grades amounted to $565,000 and were sufficient to impair the bank's surplus to the extent of $265,000. The report of earnings and dividends for the period ending December 30, 1933, indicates that during the period the bank charged off only $439 on account of losses in loans, and $62,223 on account of losses or depreciation in securities. As indicated in the Board's letter of April 6, 1934, X-7848, the Board has consistently maintained the position that losses as classified by the examiner should be charged off or otherwise eliminated from the assets of the bank, and it is requested that you endeavor to obtain such action by the Herkimer County Trust Company. In the interests of cooperation, it may be advisable to take this matter up first with the State banking authorities. The attitude of the Board regarding the minimum amount of depreciation in securities to be eliminated following the examination of State member banks is also set forth in the Board's letter X-7848.

"It has been noted that on the date of examination the bank had reserves of $137,000 for losses and depreciation. The Board feels that reserves for losses and depreciation as shown with the bank's capital accounts in its published statement should be reserves to provide for potential losses, and that such reserves are not a proper offset to assets which have been classified as losses or depreciation in securities which should be eliminated."

Approved.

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

"Receipt is acknowledged of Mr. Dillistin's letter of April 19, 1934, with inclosures, in reply to the Board's letter dated March 21, 1934, regarding the Manufacturers and Traders Trust Company, Buffalo, New York.

"From the information submitted it appears that the reduction of the bank's capital stock from $6,000,000 to $5,000,000 has been legally accomplished and that the proceedings whereby the bank acquired the 100,000 shares which were canceled were not contrary to the provisions of the laws of the State of New York.

"The memorandum forwarded with the analysis of the report of examination as of June 23, 1933 indicated that the bank and its

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"affiliate, the M. & T. Securities Corporation, held 115,491½ shares of the bank's stock, 26,843 shares of such stock being held in escrow as side collateral to loans in the bank. The executive vice president of the bank advises that the retirement of the 100,000 shares of stock has satisfactorily eliminated the shares of the bank which were held directly or indirectly as collateral to the bank's loans.

"In view of the fact that an examination in which your examiners participated was made as of December 8, 1933, and that analyses of these reports are now being made, further consideration of the adequacy of the corrections made in connection with the elimination of losses and of shares of stock of the bank held as collateral to loans will be deferred until receipt of the analyses of the current reports of examination.

"The Board has repeatedly expressed its views that estimated losses should be eliminated from a bank's assets and the policy with respect to the provision for depreciation in securities is set forth in the Board's letter of April 6, 1934, X-7848. Please advise the Board as soon as possible as to the corrections made by the bank on the basis of the report of examination as of December 8, 1933."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to the report of examination of The Citizens State Bank, Reynolds, Georgia, as of January 6, 1934.

"From the information submitted, it appears that but $32.50 of the estimated losses amounting to $646.55 have been eliminated from the bank's assets. The Board feels that a bank's published statements should reflect the true condition of the bank, and the estimated losses as classified by the examiner should be promptly charged off or otherwise eliminated, and it will be appreciated if you will advise the Board what action has been taken in this respect. If the losses as classified in the report of examination have not already been charged off or otherwise eliminated, it is requested that you endeavor to obtain such action by the bank. In the interests of cooperation it may be advisable to take these matters up first with the appropriate State authorities.

"It has been noted that during the year 1933 the bank paid a dividend of $1,000. Payment of the dividend appears unwarranted in view of the fact that the bank had no surplus at the time the dividend was declared and that the surplus of $1,000 set up at the end of the year is now impaired by estimated losses. The

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"Board appreciates the progress that the bank is making, but believes that dividends should be discontinued until a more substantial surplus has been accumulated."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to the report of examination of The North Side Bank, St. Louis County, Missouri, as of December 5, 1933, and to your letter of January 23, 1934 to the directors of The North Side Bank, advising them that unless the bank could present a plan operative by March 15, 1934 which would eliminate losses shown in the report and provide ample coverage for doubtful items and leave the bank with an unimpaired capital, you would feel justified in demanding that membership in the Federal Reserve System be discontinued.

"It will be appreciated if you will advise the Board regarding the present status of the bank's rehabilitation program, and your recommendations with respect to any action which should be taken regarding the termination of the bank's membership in the System.

"Under paragraph seven of the analysis of the report of examination, it is stated that the management, especially with reference to the cashier, is considered incompetent and undesirable, and it is assumed that in formulating any reorganization program due consideration will be given to the necessity of providing a sound and capable management."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to the report of examination of the Peoples State Bank of Plainview, Minnesota, as of January 6, 1934.

"On page (B) of the confidential section of the report the examiner calls attention to the schedule appearing on page 11a of loans aggregating $4,731.07 secured by the bank's own certificates of deposit or restricted savings accounts, and states that in many instances these loans constitute payment of time deposits before maturity.

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"Whether or not such loans constitute a violation of section 4 of Regulation Q is a matter of fact to be determined, and, as indicated in footnote 7 on page 6 of Regulation Q, a member bank must be prepared to show clearly that any loan to the owner of a time deposit in the member bank was made in good faith and not for the purpose of evading the prohibition against the payment of time deposits before maturity. If, from the information available, it appears that the bank is making payment of time deposits before maturity, it will be appreciated if you will advise the Board what steps have been taken to correct the practice, and whether the bank now understands and is fully complying with the provisions of the Federal Reserve Act and of Regulation Q regarding the payment of time deposits before maturity.

"As indicated in the Board's letter of March 9, 1934, X-7816, the prohibition against payment of time deposits before maturity does not prevent a member bank whose financial condition justifies such action from paying or making available for withdrawal deposits which were deferred as part of a general plan applicable to all or a large portion of the deposits of the bank and entered into in order to prevent closing of the bank or to rehabilitate the bank, provided that such payments before the date specified at the time of deferment of such deposits are made as part of a general plan entered into in good faith which is applicable to all of the deferred deposits in the bank on a pro rata basis or in case there is more than one class of such deferred deposits, to all of the deposits of one or more classes thereof."

Approved.

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

"Receipt is acknowledged of your letter of April 23, 1934, advising that The First National Bank of Centerville, Centerville, South Dakota, maintained its required reserves for the month of March, 1934. In this letter you recommend that no action be taken with regard to this bank until it has had an opportunity to work out its plan of rehabilitation, providing for the introduction of $125,000 of new funds and which, if completed, should eliminate any immediate concern regarding its cash reserve. The Board will therefore take no action in the matter at this time, other than to forward copies of your letter to the Comptroller of the Currency for his information."

Approved.

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

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Reserve Bank of Dallas, reading as follows:

"Reference is made to the report of examination as of March 10, 1934, of the First State Bank & Trust Company of Bryan, Texas.

"From the information submitted, it appears that the estimated losses will not be charged off until June 30, 1934. The Board feels that estimated losses as classified by the examiner should be promptly charged off or otherwise eliminated, and it is requested that you endeavor to obtain such action by the bank. In the interests of cooperation, it may be advisable to take this matter up first with the appropriate State authorities.

"It will be appreciated if you will keep the Board advised as to the action taken by the bank to effect the elimination of the estimated losses."

Approved.

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

"Reference is made to the report of credit investigation of the Citizens State Bank of Santa Paula, Santa Paula, California, as of December 20, 1933 and to the analysis thereof.

"On page four of the analysis reference is made to two loans secured by the bank's own stock on which apparently the security had been taken at the time the loans were made. Member banks are prohibited from lending on their own stock and any shares of such stock taken to prevent loss for debts previously contracted in good faith are undesirable collateral to the bank's loans, and should be disposed of at the first favorable opportunity.

"It will be appreciated if you will advise the Board whether these loans were made in violation of the law, and if so, what steps have been taken to dispose of the stock."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to "The National Bank of Middletown", Middletown, New York, reading as follows:

"The Federal Reserve Board approves your application for permission to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of

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"estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

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

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 of 'The First National Bank of Belen', Belen, New Mexico, 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 substandard assets, all as set forth in your memorandum of April 18, 1934.

"In considering the plan under which the proposed reduction in capital is to be effected, it has been noted that after the proposed adjustments are completed the bank's capital and surplus will amount to only 9 per cent of total deposits. 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 April 28, 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 First National Bank of Cloverdale', Cloverdale, California, from $50,000 to $30,000, pursuant to a plan which provides that the bank's capital shall be increased by $20,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate or reduce unsatisfactory assets and to augment the bank's surplus and/or reserve for contingencies as your office may require, all as set

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"forth in your letter of April 19, 1934, and the accompanying files."

Approved.

Telegram dated April 28, 1934, approved by six members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, stating that the Board has considered the application of the "Continental Bank and Trust Company", Fort Worth, Texas, 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 First National Bank of Hamlin", Hamlin, Texas, and has authorized the issuance of a limited permit to the applicant, subject to the following condition:

> "That applicant has fully carried out or is using its best efforts to carry out the agreement made by it as a condition of the issuance of the limited voting permit authorized in the Board's ANCIGAR telegram to you dated January 6, 1934."

and for the following purpose:

> "At any time prior to July 1, 1934, to ratify the execution by such bank of a certain agreement dated April 7, 1934 and the purchase of certain assets and assumption of certain liabilities of such bank by The Farmers & Merchants National Bank of Hamlin, Hamlin, Texas, pursuant to such agreement, and to act upon a proposal to effect the liquidation and dissolution of The First National Bank of Hamlin."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the Continental Bank and Trust Company, a limited voting permit in accordance with the telegram when the condition prescribed therein has been complied with.

Approved.

Letter dated April 28, 1934, approved by five members of the

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Board, to the Secretary of the Treasury, reading as follows:

"This refers to your letter of March 22, 1934, inclosing a proposed report by the Treasury Department on the bill S. 2955 and requesting to be advised whether such report has the approval of the Federal Reserve Board.

"For your information, there is inclosed herewith a copy of the Board's report on that bill in which it is stated, among other things, that the Board has considered your letter to the Chairman of the Committee on Banking and Currency submitting the views of the Treasury Department on S. 2955 and that the Board finds no reason to differ with the conclusions and recommendations set forth therein with respect to the proposed amendments to Section 24 of the Federal Reserve Act, to Section 5137 of the Revised Statutes, and to Section 22 of the Banking Act of 1933. It appears that the Board is also in accord with the view expressed in your letter with respect to the proposed amendment to Section 5204 of the Revised Statutes. In regard to the proposed amendment to Section 10(b) of the Federal Reserve Act, the Board favors the enactment of the essential provisions of that section in permanent form, but believes that the section should be revised so as to provide that loans may not be made by Federal reserve banks under the authority thereof unless authorized by the affirmative vote of not less than five members of the Federal Reserve Board.

"The report inclosed with your letter of March 22 is returned herewith."

Approved, together with a letter, also dated April 28, 1934, to Honorable Duncan U. Fletcher, Chairman of the Committee on Banking and Currency of the United States Senate, prepared in accordance with the action taken at the meeting on April 23 and approved by five members of the Board, reading as follows:

"This refers to the letter from the Acting Clerk of your Committee, dated March 8, 1934, inclosing a copy of S. 2955 entitled 'A Bill Relating to advances to Federal Reserve member banks on time or demand notes, loans on real estate by national banks, shareholders' liability on national-bank stock, and for other purposes', and requesting a report thereon.

"Among other things, the bill would amend Section 10(b) of the Federal Reserve Act by striking out the provision which limits the period within which the authority conferred by that section may be exercised. The Board has heretofore recommended that Section 10(b) be enacted in permanent form and favors the enactment of an amendment to accomplish such purpose, subject to the condition hereinafter set forth.

"Section 10(b) of the Federal Reserve Act authorizes any

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"Federal reserve bank in exceptional and exigent circumstances to make advances to its member banks on their time or demand notes secured to the satisfaction of such Federal reserve bank when such member banks are without sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations through other methods provided in the Federal Reserve Act. The section was added to the Federal Reserve Act by the Act of February 27, 1932, and under the authority of its provisions, as amended by subsequent acts and as extended by a proclamation signed by the President of the United States on February 16, 1934, advances may be made thereunder up to and including March 3, 1935.

"The existence of the authority conferred by Section 10(b) of the Federal Reserve Act has made it possible for the Federal reserve banks to extend to a considerable number of member banks credit which was urgently needed to tide them over a difficult period and in some instances to prevent suspension. Up to and including March 24, 1934, advances aggregating $300,999,000 had been made under the authority of this section to member banks located in all Federal reserve districts, and on that date advances of this kind in the amount of $12,262,000 were outstanding.

"In view of the fact that this section has enabled the Federal reserve banks to render very valuable assistance to member banks in difficulties, and that the total amount of advances made under this section since it was added to the Federal Reserve Act has never been sufficiently large to impair materially the liquidity of the assets of the Federal reserve banks, it is believed that the authority of the section should be made permanent. However, it is the view of the Board that loans should not be made thereunder except during periods of a banking emergency when member banks may be in unusual need of assistance and that the section should not be enacted in permanent form unless an appropriate safeguard is incorporated therein to enable the Board to prevent an undue use of such credit facilities. The Board is of the opinion, therefore, that the section should be enacted in permanent form and, in addition, should be further amended to provide that loans may not be made by Federal reserve banks under the provisions of the said section unless authorized by the affirmative vote of not less than five members of the Federal Reserve Board. There is inclosed herewith a draft of a revision of the first section of the bill S. 2955, which would accomplish the purposes desired and which it is believed should be inserted in S. 2955 in lieu of the present first section of that bill (page 1, lines 1-6 inclusive).

"Section 4 of the bill under discussion would amend Section 5204 of the Revised Statutes, which relates to the withdrawal of capital and the payment of unearned dividends, by liberalizing the definition of statutory bad debts which is contained in that section. At the present time, statutory bad debts are defined

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"as debts 'on which interest is past due and unpaid for a period of six months, unless the same are well secured, or in process of collection'. Under the proposed amendment and until July 2, 1936, debts would not be classified as statutory bad debts unless interest was past due and unpaid thereon for a period of eighteen months, instead of six months as now provided. The only effect of the proposed amendment would be to permit a national bank or a State member bank, in determining whether a dividend might properly be made, to include as a part of its assets debts on which interest was past due and unpaid for a period of more than six months but less than eighteen months, and thus some few banks might be enabled to pay dividends which otherwise would be unlawful. If the condition of a bank is such that it cannot lawfully pay dividends so long as the present definition of statutory bad debts is in effect, it is reasonable to assume that the interests of the depositors of that bank demand that its assets be conserved and not distributed in the form of dividends to its stockholders until its condition is improved. It appears that the proposed amendment to Section 5204 would not be beneficial and, accordingly, the Board does not favor its enactment.

"The bill would also amend Section 24 of the Federal Reserve Act (relating to real estate loans by national banks), Section 5137 of the Revised Statutes (relating to power of national banks to hold real property), and Section 22 of the Banking Act of 1933 (relating to liability of shareholders of national banks). Since such amendments would affect national banks only, and would have no direct effect on State banks which are members of the Federal Reserve System, the question of the desirability of such amendments would appear to be one primarily within the jurisdiction of the Comptroller of the Currency and a matter upon which it is unnecessary for the Board to express an opinion. However, the Board has considered the letter to you from the Secretary of the Treasury in which the views of the Treasury Department on the bill S. 2955 are submitted, and you are advised that the Board finds no reason to differ with the conclusions and recommendations set forth therein with respect to the proposed amendments referred to in this paragraph."

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, Chicago, Illinois, reading as follows:

"Receipt has been acknowledged of your letter of April 13, 1934, and Governor Black has called to the attention of the Federal Reserve Board your letter addressed to him under the same

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"date in regard to topics which the Board may desire the Federal Advisory Council to consider at its meeting in Washington on May 15, 1934.

"The Federal Reserve Board would appreciate it if the members of the Council would discuss the evidences which they have observed in their respective districts and in the country as a whole of improvement in business conditions and business sentiment, either generally or in particular industries.

"The Board would also be pleased to have the views of the Council as to whether there is concrete evidence of any recent increase in the release of bank credit to meet the needs of agriculture, commerce and industry.

"Consideration is being given by the Board to the question whether dealings in Federal reserve funds may affect adversely the ability of the Federal Reserve System to control credit policies, and the Board will be glad to have any statement which the Council may wish to make on this subject.

"Section 7(d) of the so-called Stock Exchange Bill in the form in which it was reported to the Senate by the Committee on Banking and Currency on April 20, 1934 (S. 3420), would amend the fourth paragraph after paragraph 'eighth' of Section 4 of the Federal Reserve Act by adding at the end thereof the following:

> 'For the purpose of further providing for the maintenance of sound credit conditions and preventing the undue use of bank credit for the purchasing, selling, or carrying of or trading in securities, the Federal Reserve Board is authorized and empowered to prescribe margin requirements applicable to loans and other forms of credit granted by or through member banks secured by stocks or other securities; for the purpose of such margin requirements, to classify and define securities, transactions relating thereto, and banks; to change such margin requirements from time to time; and to prescribe such rules and regulations as the Board may deem necessary to effectuate the purposes of this paragraph. Any member bank violating such margin requirements or such rules and regulations shall be subject to a penalty of $100 for each day that such violation continues, such penalty to be collected by the Federal Reserve bank, at the direction of the Federal Reserve Board, by suit or otherwise. Any director, officer, or employee of any member bank knowingly participating in such violation shall be subject to removal from office by the Federal Reserve Board, after reasonable notice and an opportunity to be heard, and thereafter it shall be unlawful for any member bank to permit such person to serve as a director, officer, or employee, except with the consent of the Federal Reserve Board.'

It will be appreciated if the Council will consider this provision of the bill during its meeting and give the Board the benefit of

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"its views as to the course of action the Board should take, in the event the bill in its present form becomes law, to effectuate the purposes sought to be achieved by the amendment. Thirteen copies of Bill S. 3420 are being forwarded to you today under separate cover."

Approved.

Telegram dated April 28, 1934, approved by six members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Retel March 29 in regard to authority of member banks to purchase corporate stocks solely upon order and for account of customers. Board concurs in Comptroller's opinion that term 'investment securities' in paragraph seventh of Section 5136 of Revised Statutes may not be properly interpreted as including corporate stocks, and that said section prohibits national banks from purchasing stocks upon order and for account of customers, and it is view of Board that such restrictions are made applicable to State member banks by Section 9 of Federal Reserve Act. Although restrictions of Section 5136 as to dealing in investment securities do not take effect until June 16, 1934, it is Board's opinion that restrictions as to purchase of stock for own account or for account of others became effective June 16, 1933, the date of approval of Banking Act of 1933."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Hale, Cashier of the Federal Reserve Bank of San Francisco, reading as follows:

"Receipt is acknowledged of your letter of March 19, 1934, in regard to the applicability of the California Retail Sales Act of 1933 to sales of tangible personal property at retail to the Federal Reserve Bank of San Francisco.

"It is understood that your counsel is of the opinion that such sales to the Federal Reserve Bank are exempt from this tax, although he admits that the question is not free from doubt. However, the State Board of Equalization, which administers the law in question, has taken the position that the tax is properly applicable to such sales and, as a result of that decision, you are now faced with the choice of litigating the question or of

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"acquiescing in the board's position and paying the tax. You state that as a matter of policy it appears unwise for the Federal Reserve Bank to appear as a legal contestant in such a suit, and you intend to submit to the payment of the tax unless the Federal Reserve Board suggests otherwise.

"The question whether the Federal Reserve Bank of San Francisco should submit to the payment of this tax rather than resort to court action is one involving considerations of local policy upon which the Board does not feel it is in a position to pass and, in view thereof, the Board makes no objection to the course which you propose to pursue in this matter."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of your letter of March 29, 1934, with reference to the Board's letter of March 27, 1934, regarding the meaning of the word 'thrift' as used in the definition of savings deposits contained in the Federal Reserve Board's Regulation Q. You state that your office has advised national bank examiners that they must determine, insofar as possible, whether or not the regulations of the Federal Reserve Board on this subject are being complied with and that the examiners have requested that your office further define for them the phrase 'funds accumulated for bona fide thrift purposes' as used in the regulation. Accordingly, you desire that the Board advise you as to any general set of principles or rules which could be given to examiners as a guide to them in the performance of their duties.

"It will be observed that Regulation Q relates to three classes of deposits: Deposits payable on demand, time deposits and savings deposits. The payment of interest on deposits payable on demand, directly or indirectly, by any device whatsoever is prohibited. Interest may be paid in accordance with the regulation on time deposits, but no time deposit may be paid before its maturity. Interest may be paid in accordance with the regulation on savings deposits and savings deposits may, under certain stated conditions, be paid without requiring notice of withdrawal. The primary purpose of the requirement that savings deposits consist of funds accumulated for bona fide thrift purposes is to prevent the payment of interest on funds which should properly be classified as deposits payable on demand and the payment before maturity of funds which should properly be classified as time deposits. Accordingly, the most important

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"consideration in undertaking to determine what are funds accumulated for bona fide thrift purposes is to guard against the use of savings accounts as a means of evading the prohibition against the payment of interest on deposits payable on demand or of the prohibition upon the payment of a time deposit before its maturity. If an examiner has reason to believe that funds have been classified as savings deposits in order to avoid either of these prohibitions he should make diligent inquiry into the nature of the deposit and if not entirely satisfied as to the correctness of the classification should criticize it in his report. In confidential instructions issued by your office to examiners, however, it would seem entirely proper to point out that if the examiner is satisfied that a member bank has acted in good faith in classifying any particular deposit as a savings deposit and has not made such classification in an endeavor to evade either of the prohibitions referred to, he will not be expected to apply the requirement as to funds accumulated for bona fide thrift purposes in a strict or technical manner; and this is particularly true with reference to accounts consisting of small amounts. If the examiner approaches questions of this kind with these considerations in mind and with an understanding that the requirement that savings deposits consist of funds accumulated for bona fide thrift purposes should not be given a strict and technical interpretation except where it appears that an evasion of the statute or a lack of good faith is involved, it is believed that many of the administrative difficulties with reference to this matter will be avoided.

"As stated in its letter of March 27th to Mr. Awalt, the Federal Reserve Board believes that the question whether deposits may be considered funds accumulated for bona fide thrift purposes so as to constitute savings deposits within the meaning of the regulation is one upon which no general rule can be prescribed and each case must necessarily be determined on the basis of its own particular facts. In view of the circumstances set forth in your letter, however, and in order to be as helpful as may be possible to your examiners in this connection, the Federal Reserve Board states herein some of the considerations which it feels may properly enter into a determination of the question whether deposits constitute savings deposits within the meaning of Regulation Q.

"Generally speaking and without intending to exclude other classes of deposits, the Federal Reserve Board feels that deposits which consist of funds in relatively small amounts which are being or have been accumulated by persons of limited financial means may be considered presumptively by the examiners to be funds accumulated for bona fide thrift purposes. Likewise it is believed that the same presumption should obtain with respect to funds which are being or have been accumulated in order to provide for

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"old age or for contingencies which may not be foreseen, such as sickness or accident, and also with respect to funds which are being or have been accumulated in order to provide for anticipated expenditures such as, for example, the purchase of homes, furnishings, etc., and Christmas or vacation expenses, as well as for anticipated obligations falling due within a reasonable time, such as tax liabilities or insurance premiums.

"It would seem that deposits of corporations in most cases probably would not consist of funds accumulated for bona fide thrift purposes; but here again no general rule can be laid down. Funds of a business enterprise which are temporarily idle such as surplus funds or funds commonly known as reserve funds would not ordinarily seem to constitute funds accumulated for bona fide thrift purposes. With respect to firms and individuals engaged in business, the nature of the business may be important in determining this question. Funds deposited by one bank in another would not, in the opinion of the Board, constitute funds accumulated for bona fide thrift purposes.

"None of the considerations mentioned above is to be considered as conclusive of the question whether funds may be regarded as accumulated for bona fide thrift purposes or as savings deposits and, as indicated, each case must be determined in the light of its particular circumstances. It is hoped, however, that these general statements may be indicative of the classes of deposits which in proper circumstances may constitute savings deposits and that they may be of assistance to your examiners in this connection.

"It may be that you will desire to transmit to your examiners a copy of this letter or the substance thereof and the Federal Reserve Board has no objection to such a course of action provided the examiners are instructed that the information contained therein is given to them for their confidential information only."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. John Victor, President of the Lynchburg Clearing House Association, Lynchburg, Virginia, reading as follows:

"This refers to your letter of October 9, 1933, addressed to the Board's General Counsel, in which you raise the question whether certificates of deposit which represent funds accumulated for bona fide thrift purposes and with respect to which a member bank merely reserves the right to require written notice of not less than 30 days may be classified as savings deposits within the meaning of that term as defined in the

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"Board's Regulation Q. The Board regrets that due to the pressure of other urgent matters arising in connection with the Banking Act of 1933, it has not been able to complete its consideration of this question at an earlier date.

"When Regulation Q was in process of formulation by the Federal Reserve Board, careful consideration was given to the question whether certificates of deposit with respect to which the bank merely reserves the right to require written notice of not less than 30 days might be classified as time deposits upon which interest may be paid; but, as stated in footnote 4 of the regulation, it is the Board's interpretation of the law that interest may not be paid on such a certificate of deposit, because it is in fact payable on demand unless prior to such payment notice of not less than 30 days is actually required, and because the prohibition in the law upon payment by a member bank of any time deposit before its maturity clearly contemplates that time deposits (other than savings deposits) upon which interest is payable must have a definite maturity for at least 30 days prior to payment. Accordingly, such a certificate of deposit upon which the bank merely reserves the right to require written notice of not less than 30 days may not be classified as a time deposit within the meaning of Regulation Q.

"You call attention, however, to the fact that one of the requirements of the definition of savings deposits in Regulation Q is that 'the passbook or other form of receipt' evidencing such a deposit must be presented to the bank whenever a withdrawal is made, and the question arises whether a certificate of the kind described may constitute a 'form of receipt' within the meaning of this requirement so that deposits represented thereby may be considered savings deposits. In this connection it is noted that you indicate that the certificates in question are in effect payable on demand upon the surrender of the certificates duly endorsed.

"Section 19 of the Federal Reserve Act provides that no time deposit may be paid before its maturity by a member bank, whereas the payment of savings deposits without requiring notice of withdrawal is under certain conditions permissible under the law. In order to carry out the intention of the statute in this connection it is believed important that neither the law nor the Board's regulation should be so interpreted as to encourage or facilitate evasions of the prohibition upon the payment of time deposits before their maturity or the prohibition upon the payment of interest on deposits payable on demand. A certificate of deposit, as that term is generally understood, is an instrument evidencing the receipt of a single amount on deposit the entire amount of which will be repaid at one time and only upon the surrender of the certificate. Savings deposits, on the other hand, are received under continuing contracts covering deposits made from time to time, from which withdrawals may be permitted

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"from time to time, all of which are evidenced by a single form of receipt which must be presented but need not be surrendered whenever a withdrawal is made. There is thus an essential distinction between certificates of deposit and receipts for savings deposits within the commonly accepted meaning of these terms and the Board feels that the preservation of this distinction is necessary in order to carry out the purposes of the statute. Accordingly, the phrase 'other form of receipt' as used in the definition of savings deposits in the Board's Regulation Q is not to be interpreted as including a certificate of deposit which by its terms contemplates that only one deposit will be evidenced thereby and that the entire amount will be repaid upon the surrender of the certificate. The phrase in question in Regulation Q recognizes the fact that in some circumstances banks may find it desirable to issue receipts for savings deposits which are not in the usual form of savings pass books; but it is the intention of the regulation that every such receipt for savings deposits should be a contract of a continuing character evidencing deposits the amount of which may be increased or decreased from time to time without the necessity of surrendering the receipt or issuing another such receipt.

"The Federal Reserve Board, accordingly, suggests that member banks take steps to exchange or substitute savings pass books or other receipts which comply with the intention of the regulation as discussed above for certificates of deposit outstanding which are subject merely to the right of the bank to require notice of not less than thirty days, in order that interest may be paid on deposits represented thereby. In view of the fact, however, that this matter has been pending before the Federal Reserve Board for a decision for several months, the Board will not object to the payment of interest on deposits represented by such outstanding certificates covering funds accumulated for bona fide thrift purposes until such time as such exchange or substitution can be brought about in an orderly manner after reasonable notice has been given by the bank to the holders of such certificates."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of September 21, 1933, presenting several questions with respect to section 32 and section 33 of the Banking Act of 1933 submitted to you by the Bergen County Bankers' Association of Ridgefield Park, New Jersey.

"You state that certain directors of national banks and

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"State member banks are serving at the same time as directors of title guaranty companies; that the principal business of such companies is searching and guaranteeing title to real estate; but that they also lend money on the security of real estate mortgages and sell such mortgages or mortgage certificates with or without a guaranty.

"You request first to be advised whether such loans are the type of loans 'secured by stock or bond collateral' referred to in section 8A of the Clayton Antitrust Act. It appears that the phrase 'stock or bond collateral' refers to collateral consisting of securities of the kind commonly known as 'investment securities', and while of course loans secured by real estate may be evidenced by securities of that character, it is believed that obligations arising out of the ordinary type of direct loans on real estate usually are not obligations of the kind referred to in that section.

"You further request to be advised whether the making of loans of the type to which you refer is to be considered as engaging in 'the business of purchasing, selling, or negotiating securities' within the meaning of section 32 of the Banking Act of 1933. If this question should be answered in the affirmative, you suggest that a further question would then be presented as to whether the company in question was 'engaged primarily' in such business. It is believed that these questions are fully answered by the Board's letter of April 16, 1934 (X-7866); and it is suggested that you may now advise the Bergen County Bankers' Association in accordance with the ruling contained therein. If, as suggested in the Board's letter, further questions should arise with respect to this matter upon which you desire the ruling of the Board, it will be appreciated if you will furnish the Board with all pertinent information relating thereto, together with the opinion of your counsel."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Mr. Fenner's letter of November 25, 1933, inclosed a copy of a letter from the firm of DeHaven & Townsend, dated November 20, 1933, asking whether it is necessary under the provisions of Section 32 of the Banking Act of 1933 for that firm to obtain a permit from the Federal Reserve Board to act as 'correspondent dealer' for the National Bank of Malvern. The letter states that the firm acts as broker in executing orders received from the bank for the purchase and sale of securities and that the firm

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"also holds on deposit for the member bank in connection with such transactions a small amount of money, usually not more than a few hundred dollars.

"The information submitted does not indicate whether the firm is engaged solely in the business of executing as broker orders for the purchase and sale of securities on behalf of others in the open market, or whether the firm also engages in underwriting, distributing, or dealing in securities. If the firm is engaged merely in acting as broker, the provisions of Section 32 would not be applicable to it. In this connection, reference is made to the Board's letter of April 13, 1934 (X-7860). However, in the event that the firm is an organization of the kind to which Section 32 is applicable, it becomes necessary to determine whether the functions which the firm performs are such as to make it a 'correspondent dealer' of the bank. A 'correspondent dealer' is defined in Regulation R as follows:

> 'Correspondent dealer shall include any dealer in securities which shall perform any banking functions, including the holding on deposit of any funds, on behalf of any member bank, or which shall act as the medium or agent or in any similar capacity for a member bank in connection with the underwriting, flotation or negotiating of securities, but shall not include a dealer who shall merely execute orders received from or through such member bank for the purchase or sale of securities.'

"Therefore, if the firm is an organization of the kind referred to in Section 32, the fact that it holds funds on deposit for the bank would make it a 'correspondent dealer' of the bank and make a permit necessary, even though the mere fact that the firm acts as broker for the bank in executing orders for the purchase and sale of securities would not make it a 'correspondent dealer' within the meaning of the above definition.

"Mr. Fenner's letter also asks whether the carrying of margin accounts by brokers for their customers constitutes the making of loans secured by stock or bond collateral within the meaning of Section 8A of the Clayton Act. As you know, this question has since been answered by the Board's letter of March 27, 1934 (X-7837)."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"The Federal Reserve Board has given consideration to the

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"application of H. T. Mills under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a dealer in securities in his individual capacity and as a director of the Peoples National Bank, Greenville, South Carolina, and as director of the First National Bank, Greenville, South Carolina.

"From the information contained in the application of Mr. Mills, it appears that he is not an 'officer, director, or manager of any corporation, partnership, or unincorporated association' engaged in the business of purchasing, selling, or negotiating securities. A ruling published in the Federal Reserve Bulletin for December 1933, at page 770, pointed out that Section 32 is not applicable to an individual who is not an officer, director, or manager of an organization of the kinds described in that section.

"Accordingly, it appears that Section 32 is inapplicable to the relationship described in the application, and it will be appreciated if you will advise Mr. Mills accordingly.

"Mr. Mills' application under Section 8 of the Clayton Act for permission to serve as director of the First National Bank, Greenville, South Carolina, and of the Peoples National Bank, Greenville, South Carolina, has been received and is now under consideration by the Board."

Approved.

Telegram dated April 28, 1934, approved by six members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Re Sargent's inquiry whether First Investment and Loan Company, Eugene Oregon, must be considered as engaged principally in issuance or public sale of notes or other securities within meaning of Section 20 of Banking Act of 1933 if it limits its activities to issuance of collateral trust notes for purposes of exchange for maturing notes heretofore issued and of sale to public to enable company to meet obligations to holders of maturing certificates. It is understood that notes received in exchange will be canceled and that aggregate amount of new notes issued will not exceed amount of notes canceled and paid. On basis of facts submitted it appears that company was organized for purpose of engaging in business of kind referred to in Section 20 and has actually engaged in such business over number of years, and it is believed that it must be considered as engaged principally in issuance and public sale of notes or other securities within meaning of Section 20 if it continues to issue and sell its collateral trust notes to public even though such transactions are solely for purpose of enabling company to meet its maturing obligations

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"upon notes previously issued and of aiding in its eventual liquidation. However, Board concurs in opinion of your counsel that if company should confine its activities exclusively to issuance of collateral trust notes to holders of maturing notes solely in exchange for and in renewal of such notes, it would not be considered as engaged principally in business of securities company within meaning of Section 20. Although from information submitted Board is unable to determine definitely whether collateral trust notes should be classified as 'notes or other securities' for purpose of Section 20, it would seem that they should be so classified since they are issued in form of coupon bonds. However, the Board cannot undertake to rule definitely on this question unless it is furnished with copy of form of collateral trust notes and other instruments material to inquiry and with other information of kind referred to in fifth paragraph of Board's letter of April 16, 1934 (X-7866). If further information is submitted to Board, please have your counsel consider matter and furnish opinion on question presented."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Morris F. LaCroix, Boston, Massachusetts, 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 the National Rockland Bank of Boston, Massachusetts, and as a partner of Paine, Webber & Company, Boston, Massachusetts.

"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 the relationship covered by your application is within the class which that section was designed to

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"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.

"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.

"Your attention is called to the fact that Section 8A of the Clayton Act makes it unlawful for any director, officer, or employee of any bank, banking association, or trust company organized or operating under the laws of the United States to serve at the same time as a director, officer, employee, or partner of any organization (other than a mutual savings bank) making loans secured by stock or bond collateral other than to its own subsidiaries. Although the Federal Reserve Board is authorized by Section 8 of the Clayton Act to issue permits under certain circumstances covering relationships to which the provisions of the Clayton Act are applicable, its authority is limited to the issuance of permits covering the service of not more than three banking institutions of certain classes, and it may therefore not issue permits involving relationships between national banks and organizations which are not banking institutions of the classes referred to. Therefore, if Paine, Webber & Company makes loans secured by stock or bond collateral, whether in connection with the carrying of margin accounts or otherwise, and if it is not a banking institution of one of the kinds referred to in Section 8, the Board would be without authority to issue a permit under the provisions of the Clayton Act. In such a case, it would serve no useful purpose for it to issue a permit under the provisions of Section 32 of the Banking Act of 1933, since such a permit would not render lawful a relationship prohibited by the Clayton Act."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Ralph Lowell, Boston, Massachusetts, 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 The Second National Bank of Boston, Boston, Massachusetts, and as manager of the Boston office of Clark, Dodge & Company.

"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

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"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 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.

"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.

"Your attention is called to the fact that Section 8A of the Clayton Act makes it unlawful for any director, officer, or employee of any bank, banking association, or trust company organized or operating under the laws of the United States to serve at the same time as a director, officer, employee, or partner of any organization (other than a mutual savings bank) making loans secured by stock or bond collateral other than to its own subsidiaries. Although the Federal Reserve Board is authorized by Section 8 of the Clayton Act to issue permits under certain circumstances covering relationships to which the provisions of the Clayton Act are applicable, its authority is limited to the issuance of permits covering the service of not more than three banking institutions of certain classes, and it may therefore not issue permits involving relationships between national banks and organizations which are not banking institutions of the classes referred to. Therefore, if Clark, Dodge & Company make loans secured by stock or bond collateral, whether in connection with the carrying of margin accounts or otherwise, and if it is not a banking institution of one of the kinds referred to in Section 8, the Board would be without authority to issue a permit under the provisions of the Clayton Act. In such a case, it would serve no useful purpose for it to issue a permit under the provisions of Section 32 of the Banking Act of 1933, since such a permit would not render lawful a relationship prohibited by the Clayton Act."

Approved.

Letter to Mr. John C. Legg, Jr., Baltimore, Maryland, reading

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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 the First National Bank of Baltimore, Maryland, and as managing partner of Mackubin, Legg & Co., Baltimore, Maryland.

"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 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.

"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.

"Your attention is called to the fact that Section 8A of the Clayton Act makes it unlawful for any director, officer, or employee of any bank, banking association, or trust company organized or operating under the laws of the United States to serve at the same time as a director, officer, employee, or partner of any organization (other than a mutual savings bank) making loans secured by stock or bond collateral other than to its own subsidiaries. Although the Federal Reserve Board is authorized by Section 8 of the Clayton Act to issue permits under certain circumstances covering relationships to which the provisions of the Clayton Act are applicable, its authority is limited to the issuance of permits covering the service of not more than three banking institutions of certain classes, and it may therefore not issue permits involving relationships between national banks and organizations which are not banking institutions of the classes referred to. Therefore, if Mackubin, Legg & Co. makes loans secured by stock or bond collateral, whether in connection with the

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"carrying of margin accounts or otherwise, and if it is not a banking institution of one of the kinds referred to in Section 8, the Board would be without authority to issue a permit under the provisions of the Clayton Act. In such a case, it would serve no useful purpose for it to issue a permit under the provisions of Section 32 of the Banking Act of 1933, since such a permit would not render lawful a relationship prohibited by the Clayton Act."

Approved.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. Austin Jenner, Chicago, Illinois, 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 an officer of The First National Bank of Chicago, and as director of Baker, Fentress & Company, both of Chicago, Illinois.

"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 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.

"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.

Letter dated April 28, 1934, approved by six members of the

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Board, to Mr. O. P. Klein, West Bend, Wisconsin, 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 the First National Bank, West Bend, Wisconsin, and as officer and director of B. C. Ziegler & Company, West Bend, Wisconsin.

"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 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.

"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.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. A. Frank Barnes, Salt Lake City, Utah, 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 the Barnes Banking Company, Kaysville, Utah, and as an officer and director of the Edward L. Burton & Co., Salt Lake City, Utah.

"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

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"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 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.

"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.

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

"Referring Mr. Fry's April 25 letter, Board revokes approval application First National Bank at Salem, West Virginia, for Federal Reserve bank stock, granted April 17, and approves new application for 36 shares made pursuant to resolution adopted at meeting of Board of Directors held on April 19, 1934, effective if and when Comptroller of Currency authorizes bank to commence business. Application approved on April 17 is being retained for Board's records."

Approved.

Letter to Mr. Charles S. Sargent, New York, New York, reading as follows:

"The Federal Reserve Board has given careful consideration to your application under the Clayton Act for a permit to be at the same time a member of the firm of G. M.-P. Murphy & Company, New York, New York, and a director of the Peninsula National Bank of Cedarhurst, Cedarhurst, New York.

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"The Federal Reserve Board has reached the conclusion that it was the purpose of Section 8A of the Clayton Act to prevent the undue use of bank credit for the carrying of and trading in securities, and that the method by which the section was intended to accomplish this purpose was by terminating relationships involving the service of an officer, director, employee, or partner of an organization making loans secured by stock or bond collateral as a director, officer or employee of a national bank or other bank or trust company organized or operating under the laws of the United States. Since margin accounts, and the brokers' loans by which they are financed, constitute one of the principal ways in which credit is used for carrying or trading in securities, it appears that the service of a director, officer, employee or partner of a stock exchange firm carrying such margin accounts as a director, officer or employee of a national bank is one of the principal types of relationships at which the provisions of Section 8A were directed.

"It appears that the carrying of such margin accounts constitutes a substantial portion of the business of G. M.-P. Murphy & Company, 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 be not incompatible with the public interest as declared by the Congress to grant your application.

"It may be noted that the Federal Reserve Board would not be authorized to grant your application in any event unless G. M.-P. Murphy & Company may properly be considered as a firm of private bankers within the meaning of the provisions of Section 8 of the Clayton Act. The Board has not attempted to pass definitely upon this phase of the matter but on the basis of the information which has been submitted it does not appear that G. M.-P. Murphy & Company may properly be considered as a firm of private bankers within the meaning of those provisions.

"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.

Letter dated April 28, 1934, approved by six members of the Board, to Mr. George B. Brooks, Scranton, Pennsylvania, reading as follows:

"The delay in answering your letter of February 10, 1934, has been caused by the fact that the questions which you raise

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"were under consideration by the Federal Reserve Board.

"You state that you are a partner of a stock exchange brokerage firm doing a margin business, and you ask whether you can continue to be a partner in that firm and a director of a national bank.

"The Board has reached the conclusion that, in carrying margin accounts of the usual type, a broker makes loans to his customers 'secured by stock or bond collateral' within the meaning of Section 8A of the Clayton Act, which makes it unlawful for any director, officer, or employee of any bank, banking association, or trust company organized or operating under the laws of the United States to serve at the same time as a director, officer, employee, or partner of any organization (other than a mutual savings bank) making loans secured by stock or bond collateral except to its own subsidiaries. Although the Federal Reserve Board is authorized by Section 8 of the Clayton Act to issue permits under certain circumstances covering relationships to which the provisions of the Clayton Act are applicable, its authority is limited to the issuance of permits covering the service of not more than three banking institutions of certain classes, and it may therefore not issue permits involving relationships between national banks and organizations which are not banking institutions of the classes referred to. Therefore, if your firm makes loans secured by stock or bond collateral, whether in connection with the carrying of margin accounts or otherwise, and if it is not a banking institution of one of the kinds referred to in Section 8, the Board is not authorized to issue a permit to you under the provisions of the Clayton Act.

"In view of the fact that, under those circumstances, the provisions of the Clayton Act would make it unlawful for you to continue the relationship described in your letter irrespective of the provisions of Section 32 of the Banking Act of 1933, the applicability of that section to the relationship in question has not been discussed in this letter.

"In the event that you have any further inquiries regarding this matter, it is suggested that you consult the Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, who will now be in a position to advise you regarding them."

Approved.

Letters to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. George G. Cochran, for permission to serve at the same time as a director of The First National Bank of Perryopolis, Perryopolis, Pennsylvania, and as a director of The First National Bank of Dawson, Dawson, Pennsylvania.

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Mr. M. M. Cochran, for permission to serve at the same time as a director and officer of The First National Bank of Perryopolis, Perryopolis, Pennsylvania, and as a director and officer of The First National Bank of Dawson, Dawson, Pennsylvania.

Mr. Jos. H. Strawn, for permission to serve at the same time as a director of The First National Bank of Perryopolis, Perryopolis, Pennsylvania, and as a director and officer of The National Bank and Trust Company of Connellsville, Connellsville, Pennsylvania.

Mr. M. E. Strawn, for permission to serve at the same time as a director of The First National Bank of Perryopolis, Perryopolis, Pennsylvania, as a director and officer of The First National Bank of Dawson, Dawson, Pennsylvania, and as a director of The National Bank and Trust Company of Connellsville, Connellsville, Pennsylvania.

Mr. B. B. Paddock, for permission to serve at the same time as a director and officer of The Old Second National Bank of Aurora, Aurora, Illinois, and as a director of The First National Bank of Batavia, Batavia, Illinois.

Mr. J. A. Hullum, Jr., for permission to serve at the same time as a director of The Beckham County National Bank of Sayre, Sayre, Oklahoma, and as a director of The Farmers National Bank of Erick, Erick, Oklahoma.

Mr. J. W. Ivester, for permission to serve at the same time as a director of The Beckham County National Bank of Sayre, Sayre, Oklahoma, and as a director of The Farmers National Bank of Erick, Erick, Oklahoma.

Mr. O. M. Marsh, for permission to serve at the same time as a director and officer of The Beckham County National Bank of Sayre, Sayre, Oklahoma, and as a director and officer of The Farmers National Bank of Erick, Erick, Oklahoma.

Approved.

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

Applications for ORIGINAL Stock:	Shares	
District No. 5.		
The First National Bank of Winston-Salem, Winston-Salem, North Carolina	144	144

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Applications for ORIGINAL Stock: (Continued)	Shares	
District No. 7.		
The First National Bank in What Cheer, What Cheer, Iowa	36	36
	Total	180
Applications for ADDITIONAL Stock:		
District No. 5.		
The First National Bank of Westminster, Westminster, Maryland	2	
The National Bank of Burlington, Burlington, North Carolina	15	17
District No. 6.		
The First National Bank of Linden, Linden, Tennessee	3	3
District No. 9.		
The Marquette National Bank of Minneapolis, Minneapolis, Minnesota	90	90
	Total	110
Applications for SURRENDER of Stock:		
District No. 2.		
The Phelps National Bank, Phelps, New York	60	60
District No. 6.		
Calcasieu National Bank in Lake Charles, Lake Charles, Louisiana	792	792
District No. 7.		
The National Bank of Wyoming, Wyoming, Illinois	45	
The Citizens National Bank of Greenwood, Greenwood, Indiana	30	
The First National Bank of Darlington, Darlington, Wisconsin	90	165
District No. 9.		
The First National Bank of Cambridge, Cambridge, Minnesota	33	
The First National Bank of Ree Heights, Ree Heights, South Dakota	24	57
District No. 10.		
The National Bank of Ashland, Ashland, Nebraska	48	
The City National Bank of David City, David City, Nebraska	45	93

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Applications for SURRENDER of Stock: (Continued)

	Shares	
District No. 11.		
The First National Bank of Breckenridge, Breckenridge, Texas	180	180
District No. 12.		
The First National Bank of Mountain View, Mountain View, California	36	
The Army National Bank of Fort Lewis, Fort Lewis, Washington	30	66
	Total	1,413

Approved.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

C. S. Hamlin
Chairman, Executive Committee.

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