

A meeting of the Federal Reserve Board was held in Washington on Thursday, May 3, 1934, at 2:40 p. m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Martin, Assistant to the Governor  
Mr. Paulger, Chief of the Division  
of Examinations  
Mr. Wyatt, General Counsel  
Mr. Chase, Assistant Counsel

The Board considered and acted upon the following matters:

Telegram dated May 3, 1934, from Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, advising that, at a meeting of the board of directors today, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Telegram dated May 2, 1934, approved by six members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Refer Dillistin's letter April 27. Board grants extension of time to May 28, 1934 within which 'Community Trust Company', Sayville, New York, may accomplish its admission to membership."

Approved.

Letter dated May 2, 1934, approved by six members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"I regret that pressure of other matters has prevented an earlier reply to your letter of November 2, 1933, transmitting the

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"request of the Georgia Railroad Bank & Trust Company, Augusta, Georgia, for a modification of the Board's prescribed condition numbered three, made in connection with the bank's application for membership in the Federal Reserve System, which reads as follows:

'In view of the fact that the Georgia Railroad and Banking Company owns all of your stock (except directors' qualifying shares), you shall not make any loans to that company, or purchase or acquire, or make any loan upon the security of the stock of that company.'

"In accordance with your recommendation and in view of the provisions of Section 23A of the Federal Reserve Act, the Board is of the opinion that it may properly comply with the request and accordingly cancels the part of the condition of membership quoted above which relates to loans secured by the stock of the Georgia Railroad and Banking Company. You are requested to advise the Georgia Railroad Bank & Trust Company accordingly."

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 Chateaugay', Chateaugay, New York, from \$75,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$50,000 of preferred stock to be sold to the Reconstruction Finance Corporation and/or others, and that the released capital shall be used to eliminate a corresponding amount of substandard assets, all as set forth in your memorandum of April 25, 1934. In this connection it is understood that your office will require the elimination of all estimated losses and all depreciation in securities in the lower grades by the application, in addition to the released capital, of such portion of the bank's undivided profits and/or surplus as may be necessary."

Approved.

Letter dated May 2, 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

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"First National Bank of Mocanaqua', Mocanaqua, Pennsylvania, 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 letter of April 23, 1934."

Approved.

Letter dated May 2, 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 Citizens National Bank of Front Royal', Front Royal, Virginia, from \$60,000 to \$12,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$38,000 of preferred stock to the Reconstruction Finance Corporation and/or others, that approximately \$40,865 of the released capital shall be used to eliminate unsatisfactory assets and that the balance of such released capital shall be credited to the surplus account, all as set forth in your letter of April 20, 1934."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Bluefield', Bluefield, West Virginia, from \$500,000 to \$250,000, pursuant to a plan which provides that the bank's capital shall be increased by \$100,000 of 'A' preferred stock to be sold to the Reconstruction Finance Corporation and \$150,000 of 'B' preferred stock to be sold locally, and that the released capital shall be used to eliminate estimated losses of approximately \$235,473 and to establish a special reserve for contingencies with the remainder, all as set forth in your letter of April 27, 1934."

Approved.

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

"In accordance with Acting Comptroller Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Columbus', Columbus,

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"Indiana, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$60,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate unsatisfactory assets, which are to remain the property of the bank, and provides also that \$11,500 shall be raised locally to purchase a corresponding amount of unsatisfactory assets, all as set forth in Mr. Awalt's memorandum of April 21, 1934."

Approved.

Letter dated May 2, 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 Plainview', Plainview, Minnesota, from \$35,000 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, all as set forth in your memorandum of April 19, 1934."

Approved.

Letter dated May 2, 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 Dighton', Dighton, Kansas, from \$40,000 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 in the amount of approximately \$12,192 and to increase the bank's surplus account by approximately \$2,808, all as set forth in your memorandum of April 20, 1934."

Approved.

Letter dated May 2, 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 of 'The First

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"National Bank of Oregon City', Oregon City, Oregon, 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 your letter of April 18, 1934."

Approved.

Letter dated May 2, 1934, approved by six members of the Board, to Governor Geery of the Federal Reserve Bank of Minneapolis, reading as follows:

"It has been brought to the attention of the Federal Reserve Board that the Federal Reserve Bank of Minneapolis is using the franking privilege for mailing circulars and other matter in connection with its operations as fiscal agents of the United States.

"The Post Office Department has ruled that the Federal reserve banks may not use the franking privilege as fiscal agents of the United States or otherwise, and in this connection the Treasury Department has advised one of the Federal reserve banks as follows:

"During the War a vast amount of matter connected with the various issues was mailed from the Federal Reserve banks under the frank of the Treasury Department. This was permitted by the Post Office Department because of an arrangement whereby the actual mailing at each Federal Reserve bank was done by a Treasury Department employee. Later, the use of the franking privilege by the Federal Reserve banks as fiscal agents of the United States was the subject of much discussion with the Post Office Department. That Department repeatedly ruled that the Federal Reserve banks are not authorized to use the franking privilege, whether or not the bank is acting as a bank or as a fiscal agent in so doing, and the Secretary finally decided, after giving the matter serious consideration, that the Treasury should not press the question of securing the franking privilege for mail matter originating at the Federal Reserve Banks, whether or not related to operations performed by the banks as fiscal agents or depositaries of the United States. Accordingly, on December 13, 1920 (Memorandum No. 74), the Federal Reserve banks were advised that mail matter originating at the banks must not be forwarded under the franking privilege without payment of postage. Postage expenses arising in connection with new issues of public debt securities may be reimbursed Federal Reserve banks as fiscal agents of the United States from the appropriation "Expenses of Loans, Act of September 24, 1917, as Amended and Extended."

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"I am advised that at the present time only three Federal Reserve banks use the franking privilege for disseminating Treasury circulars - a survival, in part, of arrangements in effect during the War period. The question of extending this privilege to other banks has been raised a number of times, and on each occasion it has been decided that the Treasury Department should not seek any extension of the franking privilege beyond that now accorded certain Federal Reserve banks.'

"A copy of memorandum No. 74 referred to above is attached. In view of the instructions of the Treasury Department, your bank should discontinue immediately the use of the franking privilege and should arrange to include in the expenses for which reimbursement is received from the Treasury Department any additional expense incurred for postage in connection with reimbursable fiscal agency operations. It will be appreciated if you will advise the Board of the action taken by your bank in this matter."

Approved.

Letter to Mr. Edward W. Sheldon, New York, New York, reading as follows:

"Consideration has been given to your application for permission, pursuant to Section 32 of the Banking Act of 1933, to serve as Chairman of Board of Trustees and Trustee of the United States Trust Company of New York, and as a director of the Northern Finance Corporation, both of New York, New York.

"It appears that the Northern Finance Corporation was organized by the late Mr. Oliver H. Payne for the purpose of making gifts to or trusts for certain of his nephews and nieces; that he transferred various stocks and bonds to the Corporation and received therefor the notes and stocks issued by the Corporation; that you and the United States Trust Company of New York now hold all of the outstanding notes and stock of the Corporation in trust for certain nephews and nieces of Mr. Payne; that the Corporation is empowered to buy, hold and sell property, including stocks and bonds; that most of the securities now owned by it represent the same properties as were transferred to it upon its organization, since it has never been its custom to make many changes in its investments; that it has purchased no securities whatever since May, 1925, except, on three occasions, United States Treasury short-term certificates or notes, and except for exercising its right, as stockholder, to subscribe to stock; and that, since September, 1926, it has sold no securities except one comparatively small block of stock which it had owned for many years, and except certain 'rights' received by it as stockholder in other corporations.

"In view of the facts disclosed in your application, it appears that the Northern Finance Corporation is not a corporation

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"engaged primarily in the business of purchasing, selling, or negotiating securities', within the meaning of Section 32 of the Banking Act of 1933; and that, therefore, no permit is required under the provisions of that section covering your service as director of that Corporation and as Chairman of Board of Trustees and Trustee of the United States Trust Company of New York."

Approved.

Letter to Mr. Edward J. Wood, New York, New York, reading as follows:

"The Federal Reserve Board has given consideration to your application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of The Owego National Bank of Owego, New York and as a director of P. W. Brooks & Company, New York, New York.

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

"It appears that 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

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"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 P. W. Brooks & 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 to Mr. Wm. Cavalier, San Francisco, California, 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 American Trust Company and as manager of Wm. Cavalier & Company, both of San Francisco, California.

"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

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"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 to Mr. Edward H. Heller, San Francisco, California, 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 Wells Fargo Bank & Union Trust Co., and as an active partner in Schwabacher & Co., both of San Francisco, California.

"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 May 2, 1934, approved by six members of the Board, to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of

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Kansas City, reading as follows:

"Reference is made to the application of Mr. Cy Ellinger for a permit under the Clayton Act to serve at the same time as director and officer of The First National Bank of Washington, Washington, Oklahoma, and the First State Bank, Noble, Oklahoma.

"Information obtained from the last report of examination of The First National Bank of Washington indicates that Mr. Ellinger has committed a number of violations of Section 22(g) of the Federal Reserve Act by overdrawing his account in such bank. The Board is informed, through an officer in the Department of Justice, that, between June 20 and August 30, 1935, the applicant had overdrawn his account on fifteen different occasions and that the alleged violations of law were reported to the United States District Attorney for the district in which Mr. Ellinger resides. The Department of Justice is unable to advise the Board as to what disposition was made of the cases by the United States Attorney.

"The Board feels that, in connection with applications involving reported violations of law, definite advice should be furnished it regarding the disposition which was made of the cases, since it is felt that matters of this kind would have a direct bearing upon the question of whether or not the granting of the application would be incompatible with the public interest. You are, therefore, requested to communicate with the United States Attorney in charge of the case, ascertain from him what disposition he has made or intends to make of the alleged violations, and advise the Board in the premises."

Approved.

Governor Black referred to the applications filed with the Board for permits under Section 32 of the Banking Act of 1933 authorizing The Union Trust Company of Pittsburgh, Pennsylvania, a member bank, to act as correspondent bank for each of the following corporations and partnerships, particularly in connection with dealing in and/or underwriting securities excepted from the restrictions imposed by Section 5136, Revised Statutes, upon dealing in and underwriting of securities by national banks (which provisions are made applicable to all member banks by Section 9 of the Federal Reserve Act):

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Biddle, Whelen & Company, Philadelphia, Pennsylvania,		
Drexel & Company,	"	"
Graham, Parsons & Company,	"	"
W. H. Newbold's Son & Company,	"	"
Edward B. Smith & Company,	"	"
Brown Brothers, Harriman & Company, New York, New York,		
Guaranty Company of New York,	"	"
E. W. Clark & Company, Philadelphia, Pennsylvania,		
Philadelphia National Company	"	"
Yarnall & Company,	"	"
Cassatt & Company,	"	"

He also referred to the action taken by the Board at the meeting on February 26, 1934, approving the issuance of limited permits authorizing The Union Trust Company to act as correspondent bank for all of the dealers referred to above, except Cassatt & Company, in connection with an issue of Commonwealth of Pennsylvania Soldiers Bonus Bonds, and he presented a memorandum dated May 1, 1934, from Messrs. Chase and Owens, Assistant Counsel, calling attention to a letter dated April 30, 1934, from The Union Trust Company stating that it had been notified that on May 8, 1934, the Commonwealth of Pennsylvania would receive bids for \$20,000,000 of Soldiers Bonus Bonds, and requesting that final action be taken on the applications above referred to prior to Friday, May 4, 1934, or, if that be impossible, that the Board grant limited permits before that date similar in effect to the limited permits previously granted. The memorandum expressed the opinion that, under the principle established by the action of the Board on the Section 32 application of Mr. Philip Lehman of New York, these applications should be denied, since, notwithstanding the fact that the trust company is permitted to purchase or underwrite an entire issue of securities of a type not subject to the restrictions imposed by Section 5136 of the Revised Statutes, that section

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relates to dealings in investment securities by member banks, whereas Section 32 is concerned with relationships between member banks and dealers in securities and was designed to terminate close and regular associations between commercial and investment banking houses because of the possible undesirable effects of such associations on the credit and investment policies of the member banks and their advice to their correspondent banks and other customers respecting investments.

Governor Black stated that he had given considerable thought to this problem since the Board's action on February 26, 1934, and was inclined because of existing factors which restrict the free operation of the capital investment market, to take the position that it would be compatible with the public interest to issue permits authorizing The Union Trust Company to act as correspondent bank for the dealers referred to above in dealing in the type of securities which are not subject to the restrictions imposed by Section 5136 of the Revised Statutes. He stated further that he had had a long talk with Senator Glass with regard to this matter, and that Senator Glass feels that the present restrictions on the capital investment market must be relaxed, that he (Senator Glass) is favorable to an amendment to the law which would allow banks to engage in syndicate operations provided they do not redistribute the securities thus acquired. Governor Black added that Senator Glass had requested that an amendment to Section 32 be prepared for his consideration.

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During the ensuing discussion, the members of the Board indicated that they were in agreement with Governor Black's suggestion.

Accordingly, upon motion by Mr. Szymczak, it was voted to issue permits to The Union Trust Company of Pittsburgh under Section 32 of the Banking Act of 1933 to act as correspondent bank for all of the dealers listed above in dealing in and/or underwriting the following types of securities only: obligations of the United States, general obligations of any State or of any political subdivision thereof, obligations issued under authority of the Federal Farm Loan Act, obligations issued by Federal Home Loan Banks, and/or obligations issued by the Home Owners' Loan Corporation.

Mr. Hamlin reported that the committee appointed at the meeting of the Board yesterday to look into the situation with regard to pending Clayton Act applications which do not involve directors of Federal reserve banks or their branches had carefully considered the matter and desired to report that the committee could see no reason why the applications referred to should not be submitted to the Board for action just as rapidly as they can be reviewed by the staff, and that the committee recommends, therefore, that the procedure now being followed with regard to these applications be continued, except that where applications involve unfavorable factors which require the decision of the Board as to the policy which it will adopt in such cases, the applications be submitted to the respective district committees for consideration and recommendation to the Board as to the action to be taken.

After discussion, it was decided that the procedure recommended by the committee would be followed.

Reference was then made to the Clayton Act application of Mr. James Inglis for permission to serve at the same time as a director and officer of the National Bank of Detroit and as a director of the Detroit

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branch of the Federal Reserve Bank of Chicago, action on which was deferred at the meeting of the Board on January 30, 1934, and Mr. Thomas stated that before action is taken on the application he would like an opportunity to review the file.

The file was handed to Mr. Thomas for examination prior to a meeting to be held tomorrow.

Letters dated May 2, 1934, approved by six members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. Omer N. Custer, for permission to serve at the same time as a director and officer of the First Galesburg National Bank and Trust Company, Galesburg, Illinois, and as a director and officer of the Abingdon Bank and Trust Company, Abingdon, Illinois.

Mr. S. Nirdlinger, for permission to serve at the same time as a director and officer of the First Galesburg National Bank and Trust Company, Galesburg, Illinois, and as a director and officer of the Abingdon Bank and Trust Company, Abingdon, Illinois.

Mr. H. E. Russ, for permission to serve at the same time as a director and officer of The First National Bank of Weed, Weed, California, and as an officer of The First National Bank in Yreka, Yreka, California.

Approved.

Thereupon the meeting adjourned.

Chester Merrill  
Secretary.

Approved:

C. R. Black  
Governor.