

A meeting of the Federal Reserve Board was held in Washington on Friday, May 4, 1934, at 12:00 o'clock noon.

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. Wingfield, Assistant Counsel
Mr. Chase, Assistant Counsel
Mr. Cherry, Assistant Counsel

The Board considered and acted upon the following matters:

Letter dated May 3, 1934, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegram dated May 4, 1934, from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, both advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

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 City National Bank of Harrisburg, Harrisburg, Illinois, 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,

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"all as set forth in your memorandum 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 'Dysart National Bank', Dysart, Iowa, from \$65,000 to \$26,000, pursuant to a plan which provides that the bank's capital shall be increased by \$40,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of April 23, 1934."

Approved.

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

"This refers to your letter of April 16, 1934, with the inclosed application, dated October 20, 1931, of the liquidating committee of the Midwood Trust Company, Brooklyn, N. Y., for the cancelation of 870 shares of stock of the Federal Reserve Bank of New York outstanding in the name of the subject bank.

"You state that the application has been held in abeyance pending the outcome of certain litigation which has been the subject of previous correspondence with the Board, and that one of the two suits has now been concluded, and as the other suit may not be disposed of for some time you recommend the cancelation of the Federal Reserve bank stock, the Federal Reserve Bank of New York to attempt to retain the proceeds until final disposition of the litigation. You further state you understand (although you have not been so advised formally) that Messrs. Bancroft, Gray and Marshall, who signed the application for the cancelation of the Federal Reserve bank stock, are no longer acting as a liquidating committee of the Midwood Trust Company and that the liquidation is in charge of the directors thereof, also that you feel you may properly act upon the present application and that it is not necessary to request the filing of a new application.

"In view of the circumstances involved, and with the understanding that the procedure has the approval of counsel for your bank, the Federal Reserve Board approves the cancelation of 870 shares of stock of the Federal Reserve Bank of New York outstanding in the name of the Midwood Trust Company, Brooklyn, N. Y. It is understood that your bank will attempt to retain the proceeds of the canceled stock pending the conclusion of the litigation referred to above."

Approved.

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Telegram dated May 3, 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 May 1 from Sargent Board authorizes extension of time from May 1 to June 1 within which Chandler Investment Company, Marshfield, Oregon, may vote stock of The First National Bank of Coos Bay at Marshfield for purposes enumerated in paragraph D. of Board's ANCIGAR telegram dated February 21, 1934."

Approved.

Letter dated May 3, 1934, approved by six members of the Board, to Mr. F. V. Askew, President of The Bank of Commerce, Claremore, Oklahoma, reading as follows:

"Due to the pressure of other urgent matters under consideration at the time, your letter of October 14, 1933, was not acknowledged promptly and I regret to find that no reply to the letter has as yet been made. You request the Federal Reserve Board to instruct all Federal reserve banks to pay charges of twenty-five cents each made by drawee banks upon checks returned by them because of insufficient funds or no funds.

"The Federal Reserve Board knows of no proper legal basis upon which charges of this kind could be enforced against Federal reserve banks and, accordingly, the Board cannot comply with your suggestion that it require the reserve banks to pay such charges."

Approved.

Telegram to the Governors of all Federal reserve banks except Cleveland, reading as follows:

"Referring Board's inquiry regarding need for credit for purpose of providing working capital for established industrial or commercial businesses, please advise cost, at commercial rates, of telegrams in regard thereto sent to member banks and Chambers of Commerce and cost of replies by banks and Chambers of Commerce sent collect. Please also advise Board whether such telegrams have been paid and, if not, defer payment until receipt of further advice from Board."

Approved.

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

"This refers to your letters of December 19, 1933, and of March 5, 1934, with inclosures, in regard to the question whether the First Mortgage Loan Company of San Angelo, Texas, is a 'securities company' within the purview of Section 20 of the Banking Act of 1933, which provides in part that after one year from June 16, 1933, no member bank shall be affiliated in any manner described in Section 2(b) of that Act with any 'corporation * * * engaged principally in the issue, flotation, underwriting, public sale or distribution * * * of stocks, bonds, debentures, notes or other securities'. From the information submitted with your letter, it appears that the said company has been engaged principally in the business of purchasing ordinary notes secured by mortgages, and that it has not dealt in stocks, bonds, debentures, or other such securities except in one isolated instance. It does not appear that the company has issued or sold any bonds or debentures based on the mortgage notes.

"One of the principal purposes of the Banking Act of 1933 was to effect a separation of commercial and investment banking, and it appears that Section 20 of that Act was designed to aid in the accomplishment of this purpose. Although there may be mortgage notes of a kind which should be classed as 'securities' for the purposes of Section 20, the Federal Reserve Board is of the opinion that mortgage notes arising out of the ordinary type of direct loan on real estate are not ' * * * notes or other securities' within the intendment of that section, and that neither such notes nor the mortgages securing the same should be classified as 'stocks, bonds, debentures, notes, or other securities' in determining whether an organization dealing in such obligations comes within the scope of said Section 20. Accordingly, the Board is of the opinion that a company engaged merely in purchasing ordinary notes secured by mortgages cannot be considered as being engaged 'principally in the issue, flotation, underwriting, public sale, or distribution * * * of stocks, bonds, debentures, notes, or other securities', and the Board concurs in the view expressed by counsel for your bank that the First Mortgage Loan Company of San Angelo, Texas, does not come within the purview of said Section 20 of the Banking Act of 1933."

Approved.

Letter to Mr. Lewis Cass Ledyard, Jr., New York City, 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

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"at the same time as a trustee of the United States Trust Company of New York, New York, New York, and as a director of the Melville Bond and Share Corporation, Jersey City, N. J.

"It appears that the Melville Bond and Share Corporation is successor, by a corporate reorganization, of the Melville Securities Corporation, which was organized by the late Mr. H. Melville Hanna for the purposes of relieving himself from the cares of managing his property and making certain gifts to his descendants; that he transferred to the latter company various securities and received therefor the notes and stocks issued by the company; that upon the reorganization, the notes and stock of the old company were exchanged for similar notes and stock in the Melville Bond and Share Corporation, all of which are owned or controlled by Mr. Hanna's descendants or their families; that the corporation is empowered to buy, hold and sell real and personal property; that at various times both corporations have bought and sold certain securities, but many of the securities now owned were transferred to the predecessor company upon its organization.

"In view of the facts disclosed in your application, it appears that the business of Melville Bond and Share Corporation is that of holding securities formerly owned by the late Mr. H. Melville Hanna, from time to time selling the same and purchasing and selling other securities, and distributing the income from such securities to his descendants and their families and that the corporation is not 'engaged primarily in the business of buying, selling, or negotiating securities', within the meaning of Section 32 of the Banking Act of 1933. Therefore, no permit is required under the provisions of that section covering your service as director of that corporation and as trustee of the United States Trust Company of New York."

Approved.

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, Michigan, and as a director of the Detroit branch of the Federal Reserve Bank of Chicago.

Mr. Szymczak moved that the application be approved.

Carried.

During the discussion of Mr. Szymczak's motion, Mr. Thomas stated that he had reviewed Mr. Inglis' application, and that the question which concerned him in connection therewith was whether or not Mr. Inglis had

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actually functioned as a director. He also stated that he desired to suggest to the Board that a letter be sent to all member banks through the Federal reserve banks emphasizing the responsibility devolving upon directors of the banks actively to participate in the direction of the affairs of their respective institutions. Mr. Thomas' suggestion was discussed and it was decided that, inasmuch as the Federal reserve agents from all of the Federal reserve banks will be in Washington next week, the matter should be taken up with them.

At this point Mr. O'Connor joined the meeting.

Governor Black referred to the draft of letter to the Federal Reserve Agent at the Federal Reserve Bank of New York, which had been prepared in accordance with the action taken at the meeting on April 23, 1934, with regard to the service of officers and directors of certain member banks in New York City as directors of the Discount Corporation of New York. He called attention to the fact that the letter contains a statement to the effect that action on the application of Mr. S. Sloan Colt is being deferred pending consideration of his Clayton Act application, and he suggested the advisability of holding the letter to the Federal Reserve Agent at New York and the letters to the other applicants for permission to serve the Discount Corporation, until the Board is in a position to act on both of the applications submitted by Mr. Colt.

It was understood that Mr. Colt's Clayton Act application would be expedited as much as possible in accordance with the Governor's suggestion.

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Mr. O'Connor inquired whether any consideration had been given by the Board to a reduction in the maximum rate of 3% on time and savings deposits prescribed in Regulation Q. Governor Black stated that, while the Board had received one or two communications suggesting a reduction in the rate, the Board had taken no action with regard thereto inasmuch as it was felt when Regulation Q was promulgated that the rates prescribed therein were clearly maximum rates and that member banks could fix any rates they might choose within that limit. The Governor also pointed out that the maximum rates of 3% were fixed by the Board after a thorough and careful survey of the rates charged throughout the United States by member banks.

In connection with the above matter, Mr. Morrill called attention to the fact that the Board's Regulation Q prescribed a maximum rate of 3% per annum compounded semi-annually on time and savings deposits, whereas the regulations of the Federal Deposit Insurance Corporation prescribed a maximum rate of 3% per annum compounded quarterly. Mr. O'Connor stated that the original rate fixed by the Corporation was in agreement with the Board's Regulation Q, but that it had been changed in recognition of the custom of mutual savings banks of computing interest quarterly, and that the Corporation felt that, because of the small amount of interest involved in the changed basis of computation, the criticism made of the change by member banks is not justified. It was pointed out, however, that certain member banks have taken the position that the difference in the regulations of the Board and the Federal Deposit Insurance Corporation places them in an unfair competitive position with respect to nonmember banks, and while the actual amount of interest may be very small, they take the

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position that it is an important difference from a competitive standpoint. Governor Black suggested that the Federal Deposit Insurance Corporation might consider the advisability of amending its regulation to permit only mutual savings banks to compound interest on a quarterly basis.

Upon inquiry by Governor Black as to the status in the House Banking and Currency Committee of the bill which would extend for one year from July 1, 1934, the temporary insurance provisions of Section 12B of the Federal Reserve Act, Mr. O'Connor stated that he had conferred with Mr. Steagall, Chairman of the Committee, who insisted that there is very strong feeling in the Committee and in the House that the bill in its present form should not be approved; although it might be passed if the amount of the insured deposits were raised from \$2,500 to \$5,000. He also stated that he had advised Mr. Steagall that the bill in its present form had been approved by the President and passed by the Senate, and that he would not be willing to approve any amendments to the bill in its present form. He added that he had advised the President on May 1 of Mr. Steagall's attitude, and stated that he felt that, if the bill could be brought out of the Committee it would be passed by the House, and that in a later conversation with Senator Glass the latter had expressed the same opinion. It is very important, Mr. O'Connor said, that all reasonable steps be taken to secure the passage of the bill, and with this thought in mind the directors of the Federal Deposit Insurance Corporation intend to confer with the leading members of the House Banking and Currency Committee with a view to expediting the passage of the legislation. Governor Black stated that Mr. Steagall had advised him that the bill in its present form would

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not pass the House, and that in a conference with the President the latter had requested that Governor Black advise Mr. Steagall that he (the President) desired the legislation passed at this session. Governor Black said that he had given the President's message to Mr. Steagall.

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

Mr. A. A. Smith, for permission to serve at the same time as a director and officer of the State Bank of Jennings, Jennings, Kansas, and as a director and officer of The First National Bank of Norton, Norton, Kansas.

Mr. F. L. Ford, for permission to serve at the same time as a director and officer of The First National Bank of St. Joseph, St. Joseph, Missouri, as a director and officer of The First Trust Company, St. Joseph, Missouri, and as a director and officer of the First State Bank of St. Joseph, St. Joseph, Missouri.

Mr. Jacob Geiger, for permission to serve at the same time as a director of The First National Bank of St. Joseph, St. Joseph, Missouri, and as a director of The First Trust Company, St. Joseph, Missouri.

Mr. B. W. Melick, for permission to serve at the same time as a director of The First National Bank of St. Joseph, St. Joseph, Missouri, and as a director of The First Trust Company, St. Joseph, Missouri.

Mr. Ben Phillip, for permission to serve at the same time as a director of The First National Bank of St. Joseph, St. Joseph, Missouri, and as a director of The First Trust Company, St. Joseph, Missouri.

Mr. G. E. Porter, for permission to serve at the same time as a director and officer of The First National Bank of St. Joseph, St. Joseph, Missouri, as a director and officer of The First Trust Company, St. Joseph, Missouri, and as a director and officer of The First State Bank of St. Joseph, St. Joseph, Missouri.

Mr. R. N. Ridge, for permission to serve at the same time as a director of The First National Bank of St. Joseph, St. Joseph, Missouri, and as a director and officer of The First Trust Company, St. Joseph, Missouri.

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Mr. Thos. R. Wall, for permission to serve at the same time as a director of The First National Bank of St. Joseph, St. Joseph, Missouri, as a director of The First Trust Company, St. Joseph, Missouri, and as a director of The First State Bank of St. Joseph, St. Joseph, Missouri.

Mr. J. Reuben Clark, Jr., for permission to serve at the same time as a director of The Utah State National Bank of Salt Lake City, Salt Lake City, Utah, and as a director of Zion's Savings Bank & Trust Company, Salt Lake City, Utah.

Mr. A. W. Ivins, for permission to serve at the same time as a director and officer of The Utah State National Bank of Salt Lake City, Salt Lake City, Utah, as a director and officer of Zion's Savings Bank & Trust Company, Salt Lake City, Utah, and as a director and officer of Utah Savings & Trust Company, Salt Lake City, Utah.

Mr. Ashby Snow, for permission to serve at the same time as a director of The Utah State National Bank of Salt Lake City, Salt Lake City, Utah, as a director of Zion's Savings Bank & Trust Company, Salt Lake City, Utah, and as a director of Utah Savings & Trust Company, Salt Lake City, Utah.

Mr. Geo. S. Spencer, for permission to serve at the same time as a director of The Utah State National Bank of Salt Lake City, Salt Lake City, Utah, as a director and officer of Zion's Savings Bank & Trust Company, Salt Lake City, Utah, and as a director of Utah Savings & Trust Company, Salt Lake City, Utah.

Approved.

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

Application for ORIGINAL Stock:

District No. 7.

First National Bank in Howell,
Howell, Michigan

Shares

36

36

Applications for ADDITIONAL Stock:

District No. 4.

The Pikesville National Bank,
Pikesville, Kentucky

51

The Second National Bank of Hamilton,
Hamilton, Ohio

24

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<u>Applications for ADDITIONAL Stock: (Continued)</u>		<u>Shares</u>
<u>District No. 4. (Continued)</u>		
The First National Bank of Wilmington, Wilmington, Ohio	24	
The First National Bank of Etna, Etna, Pennsylvania	60	159
<u>District No. 9.</u>		
The Northern National Bank of Bemidji, Bemidji, Minnesota	3	
The First Citizens National Bank of Watertown, Watertown, South Dakota	30	33
<u>District No. 10.</u>		
The City National Bank & Trust Company of Kansas City, Kansas City, Missouri	180	180
<u>District No. 12.</u>		
The First National Bank of Salt Lake City, Salt Lake City, Utah	150	
The First National Bank of Ferndale, Ferndale, Washington	15	165
	Total	537
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 2.</u>		
The First National Bank of Hankins, Hankins, New York	20	20
<u>District No. 5.</u>		
The First National Bank of Darby, Darby, Pennsylvania	345	
The Northwestern National Bank & Trust Company of Philadelphia, Philadelphia, Pennsylvania	1,500	1,845
<u>District No. 9.</u>		
The First National Bank of Stone Lake, Stone Lake, Wisconsin	16	16
<u>District No. 10.</u>		
First National Bank in Independence, Independence, Kansas	240	240
<u>District No. 12.</u>		
The First National Bank of Sebastapol, Sebastapol, California	72	
The First National Bank of Blackfoot, Blackfoot, Idaho	47	

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Applications for SURRENDER of Stock: (Continued) Shares
District No. 12. (Continued)
The First National Bank of Bremerton,
Bremerton, Washington

72	191
<u>Total</u>	<u>2,312</u>

Approved.

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

E. R. Black
Governor.