A meeting of the Federal Reserve Board was held in Washington on Monday, May 7, 1934, at 3:30 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

The Board considered and acted upon the following matters:

Telegram dated May 4, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Your letter April 30. Board approves designation of Frederick Earl Liptrott as Assistant Examiner in Federal Reserve Agent's department your bank at salary rate of $2,500 per annum. Please advise date commissioned."

Approved.

Telegram dated May 4, 1934, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Your letter May first. Board approves appointment of Victor P. Schumacher as assistant examiner in Federal Reserve Agent's department your bank at salary rate of $2,400 per annum effective upon assuming duties. Please advise effective date."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to the analysis of the report of examination

"of the Ogdensburg Trust Company, Ogdensburg, New York, conducted by State authorities as of November 13, 1933.

"The analysis indicates that estimated losses amounted to $189,000 and that unclassified depreciation in securities below the four highest grades amounted to $47,000. The report of earnings and dividends for the six months' period ending December 30, 1933, shows that during the period the bank charged off $59,222 on account of losses in loans, $51,080 on account of losses or depreciation in securities, and $1,788 on account of losses in other real estate. 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 Ogdensburg Trust Company. In the interests of cooperation, it may be advisable to take this matter up first with the appropriate State authorities. The Board's views with respect to the minimum amount of depreciation in securities to be eliminated following the examination of State member banks is also expressed in its letter X-7848.

"It has been noted that on the date of examination the bank had reserves of $88,000 for losses and depreciation. The Board feels that estimated losses and depreciation listed for elimination have not been properly eliminated by the setting up of reserves which are included with the bank's capital accounts in its published statements. Such reserves should be used either in making charge-offs of the estimated losses and depreciation or treated as valuation reserves and deducted from the assets against which they are allocated, showing only the net amount of the assets in the published statement. If any reserves for losses are shown among the capital accounts they should represent allocations of surplus and/or undivided profits to cover possible or potential losses; or, in other words, represent true 'reserves for contingencies'.

"The analysis reflects continued violations of the conditions of membership in that the loan to Nathan Frank's Sons is in excess of the limits prescribed by the banking laws of the State of New York, as it was at the time of the examinations as of June 3, 1933, and November 12, 1932; that the credit data continued to be inadequate in spite of the previous criticisms and the assurances given by the president of the bank in his letter of September 23, 1932, to Mr. Dillistin that satisfactory credit files would be maintained; and that the bank has not disposed of the shares of its own stock held as collateral.

"It will be appreciated if you will advise the Board what steps have been taken to effect corrections of these matters and obtain compliance with the conditions of membership.

"According to the analysis of the report of examination, the trust department was not examined, but the safekeeping department was checked and the whole system found to be unsatisfactory. It is believed that the next examination should include an examination of

"the trust department, and you are requested to give the necessary instructions to your examiners."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"We regret that pressure of other matters has prevented an earlier reply to Mr. Hill's letter of September 12, 1933, inclosing a copy of a resolution adopted on June 6, 1933, by the Carlisle Trust Company of Carlisle, Pennsylvania, which was admitted to membership in 1921.

"By this resolution the Carlisle Trust Company adopted the Board's standard conditions of membership as revised on March 11, 1933, and Mr. Hill states that this action was entirely voluntary, 'although we suggested such procedure when, during the course of the last examination, our examiner submitted a list of the conditions to the president'. Mr. Hill assumes that these revised conditions should be considered as binding on the member trust company and states that, unless you hear from the Board to the contrary, you will report any violation of these conditions in the same manner as you would report violations of the conditions imposed at the time of the institution's admission to membership.

"For the reasons hereinafter stated, it is doubtful that the voluntary acceptance of the new conditions of membership by the Carlisle Trust Company has any legal effect, and it is doubtful that any violation of such conditions would constitute a sufficient legal basis for the expulsion of such bank from membership in the Federal Reserve System. There is no objection, however, to your reporting violations of such conditions in the same manner that you would report any other unsound or undesirable banking practices engaged in by member banks.

"It would be desirable to have the revised conditions of membership observed by all State member banks; but your attention is invited to the fact that, under the law, the Board is authorized to prescribe conditions of membership only at the time a bank is admitted to membership and has no right to require State banks to accept new conditions subsequent to their admission to membership.

"The observance of this principle is important; because many State banks became members of the Federal Reserve System in reliance upon the amendments to Section 9 of the Federal Reserve Act contained in the Act of June 21, 1917, which were adopted for the specific purpose, among others, of assuring State member banks that, except to the extent prevented by the provisions of the Federal Reserve Act, regulations of the Board pursuant thereto and conditions of member-

"ship prescribed by the Board and accepted by such banks at the time of their admission to the Federal Reserve System, such banks shall retain their full charter and statutory rights as State banks or trust companies and may continue to exercise all corporate powers granted them by the States in which they were created. Moreover, when the Board first incorporated its standard conditions of membership in Regulation H in 1924, such action resulted in much criticism of the Federal Reserve System by the National Association of Supervisors of State banks and also by certain members of Congress. (See the Board's letter of February 2, 1926,--X-4521-a--to the Chairman of the Banking and Currency Committee of the House of Representatives). This criticism resulted from the mistaken impression that the Board was attempting to prescribe such conditions for banks previously admitted to membership, although the regulations clearly stated that they were to be prescribed for banks thereafter admitted to membership.

"In view of these circumstances, if the representatives of the Federal reserve banks suggest to State member banks the observance or acceptance of new conditions of membership which were not prescribed for them at the time of their admission to the Federal Reserve System, such representatives should be cautioned to be very careful about the manner in which they make such suggestions and to guard carefully against saying or doing anything which might create the impression that member banks are required to accept such new conditions of membership, or that any attempt is being made to coerce them to do so."

Approved.

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

"Reference is made to Mr. Fletcher's letter of April 9, 1934 transmitting the request of The First-Central Trust Company, Akron, Ohio, for cancelation of the Board's condition of membership numbered 18 which provides that the bank shall pledge with its trust department as security for trust funds held by the banking department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"It is understood that the Ohio General Code, Section 710-165, effective June 14, 1935, provides that after that date trust funds may be held as a deposit in the trust department or may be deposited in any department of the bank, subject in other respects to the provisions of law relating to deposit of trust funds by trustees and others, and that in the event of insolvency, closing or suspension of such bank, the funds so deposited shall be preferred as to the payment thereof. It is further understood that one of the conditions prescribed by the Ohio State Banking Department incident to

"the licensing of The First-Central Trust Company provides that at least 25 per cent of the aggregate amount of the bank's capital, surplus and deposits shall be kept invested in obligations of the United States Government, free and unencumbered, that because of such condition, together with the requirements imposed by the Board's condition numbered 18, the bank is compelled to carry United States Government obligations to an extent which overbalances its statement.

"In view of the provisions of Section 710-165 of the Ohio General Code above referred to, The First Central Trust Company has requested that condition numbered 18 be canceled, and Mr. Fletcher raises the question as to whether the Federal Reserve Board wishes to give consideration to waiving its standard condition numbered 18 in so far as it concerns Ohio State banks.

"Section 11 (k) of the Federal Reserve Act vests in the Federal Reserve Board the authority to grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act in certain fiduciary capacities. Section 11 (k) also provides that 'funds deposited or held in trust by the bank awaiting investment shall be carried in a special account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board'. The Board feels that the provision of law expressed in the above section is sound and desirable for both State and national banks exercising fiduciary powers, and, accordingly, has prescribed such a requirement as a standard condition of membership for State banks, regardless of what the provisions of State law may be in connection therewith under which the bank is operated. The Board, of course, does not have the authority to waive such provision in the case of national banks and does not feel that it would be justified, under the circumstances, in making an exception thereof in the case of any State bank which has accepted the provision as a condition of membership. The fact, of course, that trust funds deposited in a State bank may be preferred as to payment thereof under State laws in the event of insolvency or suspension of the bank does not necessarily mean that such funds would be paid in full in the event of insolvency or suspension of the bank as circumstances may be imagined under which an insolvent or suspended bank would not be able to pay even its preferred creditors in full.

"In view of all the circumstances, therefore, and after careful consideration, the Board feels that it would not be justified in canceling condition numbered 18 prescribed in connection with the application for membership of The First-Central Trust Company and it is requested that you advise the bank accordingly."

Approved.

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

Reserve Bank of Chicago, reading as follows:

"In reviewing the report of examination of the State Savings Bank of Ann Arbor, Michigan, as of December 21, 1933, and information submitted in connection therewith, it has been noted that doubtful assets, estimated losses and depreciation in securities exceed the bank's capital accounts by a substantial amount. It has been noted also that the bank is having difficulty in effecting a satisfactory rehabilitation of its capital structure and that examinations of the two State member banks in Ann Arbor are now being made for the purpose of obtaining current information upon which plans may be developed for correction of the entire Ann Arbor situation. It is understood that an examination of the national bank in Ann Arbor has recently been completed and that in working out these plans you are cooperating with the Chief National Bank Examiner.

"In the circumstances, therefore, with the exception of the matters discussed below, the Board will defer consideration of the report of examination of the State Savings Bank of Ann Arbor pending receipt of the report of the examinations now being made.

"On pages 55 and 56 of the report of examination as of December 21, 1933, the examiner lists certain bonds which the bank sold during the year 1933 at a loss of $41,792.50, which loss, however, was not charged off and other bonds were purchased with the proceeds of the bonds sold and were thereupon written up on the books of the bank to the extent of $41,360. It is understood that the State Banking Department permits trading of this character, with the bonds acquired in the transaction carried at approximately the book value of the bonds sold. For your information, however, the Attorney General of the United States has advised the office of the Comptroller of the Currency that cases of this kind involving national banks should be reported to the Department of Justice for possible criminal prosecution on the theory that they may involve false entries made with the intent to deceive the examiners and to defraud the public in general, and, in the circumstances, a report of the transactions listed on pages 55 and 56 of the report of examination referred to has been forwarded to the Attorney General of the United States for such action as he considers advisable. A copy of the letter addressed to the Attorney General in this connection is inclosed herewith for your further information and you are requested to make a similar report to the local United States Attorney.

"It has been noted further that some municipal bonds have been purchased from the bank for investment of trust funds. Even though no profits are taken by the bank in the sales, such transactions should be discontinued as they are not in accordance with the best fiduciary practices and in so dealing with itself a bank may incur heavy legal liabilities."

Approved.

Letter dated May 4, 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 Fordyce Bank & Trust Co., of Fordyce, Arkansas, as of February 8, 1934, and the analysis thereof.

"On the last page of the analysis it is reported that prior to admission to membership the bank sold its insurance department to one of its directors, and also charged old dormant accounts $1,500 and credited that amount to income. The report of examination includes a statement of the insurance department of the Fordyce Bank & Trust Co., as of January 31, 1934, showing total liabilities of $1,432.16, including accounts payable amounting to $1,329.75. Inasmuch as the bank was admitted to membership on September 22, 1933, prior to which time the insurance department was sold, it is not clear why the department should still be operated in the name of the bank. It will be appreciated if you will advise the Board as to the present relations between the bank and the insurance department and whether the liabilities of the department are in fact liabilities of the bank and should be so reported.

"It will be appreciated also if you will advise the Board by what authority the bank appropriated $1,500 deposit accounts to its own use. Unless the laws of the State specifically provide that dormant accounts revert to the bank, and unless the transaction was carried out in strict compliance with such laws, these entries should be reversed and the deposits carried as such."

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 in Sidney', Sidney, New York, from $100,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by $75,000 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 undesirable assets, all as set forth in your memorandum of April 23, 1934.

"In this connection, it is understood that your office will require the elimination of all estimated losses and depreciation in investment securities by the application, in addition to the released capital, of such portion of the bank's undivided profits, reserves and/or surplus as may be necessary."

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 Morrisville', Morrisville, New York, from $50,000 to $12,500, pursuant to a plan which provides that the bank's capital shall be increased by $37,500 of preferred stock to be sold to the Reconstruction Finance Corporation and/or others, and that the released capital shall be used to eliminate substandard assets, all as set forth in your memorandum of April 28, 1934. In this connection, it is understood that your office will require the elimination of all estimated losses classified in the report of examination of March 6, 1934, and all securities depreciation on the basis of present market values, by the use, in addition to the released capital, of such portion of the bank's undivided profits account as may be necessary."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the capital stock of 'The First National Bank of Convoy', Convoy, Ohio, from $50,000 to $25,000, pursuant to a plan which provides that the bank's capital shall be increased by $35,000 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 27, 1934. In this connection it is understood that your office will require the elimination of all estimated losses by the use, in addition to the released capital, of such portion of the bank's undivided profits and/or surplus as may be necessary.

"In considering the plan under which the proposed reduction in common capital is to be effected, it has been noted that securities depreciation unprovided for of approximately $25,100, if considered as a loss, would impair the bank's common capital to the extent of approximately $24,400. In addition, there will remain in the bank a large aggregate of slow and doubtful assets in which some loss seems probable. It is assumed, however, that you have these conditions in mind and that whenever it is feasible to do so you will require such further corrections as may be practicable."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'First National Bank of Reidsville', Reidsville, North Carolina, from $100,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of $50,000 preferred stock to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate approximately $15,824 of unsatisfactory assets, and to establish a reserve for losses and contingencies of approximately $34,176, all as set forth in your letter dated April 23, 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 Peoples National Bank of Albia', Albia, Iowa, from $75,000 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, that the released capital shall be used to eliminate unsatisfactory assets, and that a note of $5,350, classed as a loss, be paid by local interests, all as set forth in your memorandum of April 26, 1934.

"In considering the plan under which the proposed reduction in common capital is to be effected, it was noted that although your examiner severely criticized the management, no change is contemplated. It is assumed, however, that you have this condition in mind and that whenever it becomes feasible to do so, you will require such changes as may be practicable."

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 Second National Bank of Belvidere', Belvidere, Illinois, from $100,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by $50,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the

"released capital, together with contributions of $13,000 and a portion of the surplus, profits and reserves, shall be used to eliminate unsatisfactory assets in the amount of approximately $93,442, all as set forth in your memorandum of April 27, 1934."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Citizens National Bank of Tell City', Tell City, Indiana, from $50,000 to $25,000, pursuant to a plan which provides that the released capital shall be used in eliminating a corresponding amount of substandard assets and securities depreciation, all as set forth in your memorandum of April 30, 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 Wolf Point', Wolf Point, Montana, 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 and securities depreciation in the amount of approximately $22,027 and to increase the reserves for contingencies account by approximately $2,973, all as set forth in your memorandum of April 30, 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 Horton', Horton, Kansas, from $50,000 to $35,000, pursuant to a plan which provides that the bank's capital shall be increased by $15,000 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 $7,000 and to increase the bank's surplus in the amount of approximately $8,000, all as set forth in your memorandum of April 26, 1934."

Approved.

Telegram dated May 5, 1934, approved by five members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, stating that the Board has considered the application of the "BancOhio Corporation", Columbus, Ohio, 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 Bank of Marysville Company", Marysville, Ohio, and has authorized the issuance of a limited permit to the applicant for the following purpose:

"At any time prior to July 1, 1934, to act upon a proposal or proposals to increase the common capital stock of such bank from seventy-five thousand dollars ($75,000) to one hundred thousand dollars ($100,000) and to absorb The Commercial-Savings Bank of Marysville, Marysville, Ohio, by the assumption of its liabilities to depositors and other creditors and the purchase of its assets, all in accordance with a plan which shall be satisfactory to the appropriate supervisory authorities and to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland; and in connection therewith to elect certain directors and to take such other action as may be necessary to the proper consummation of said plan."

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

Approved.

In connection with the above telegram there was presented a letter to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of

Cleveland, reading as follows:

"Reference is made to Mr. Fletcher's letter of April 24, 1934, recommending approval of the application of The Bank of Marysville Company, Marysville, Ohio, for permission to absorb The Commercial-Savings Bank of Marysville, Marysville, Ohio, a nonmember bank.

"The Board has reviewed the information submitted, from which it appears that the transaction will result in no material change in the general character of the assets of, or broadening in the scope of functions exercised by, the member institution within the meaning of the general condition under which the bank was admitted to membership. The Board will, therefore, interpose no objection to the transaction provided none of the assets of The Commercial-Savings Bank of Marysville which were classified as doubtful, loss and inadmissable by your examiner in his report of February 26, 1934, are taken into the assets of the member bank, that the capital structure of the member bank is increased in an amount sufficient to provide proper protection for the combined deposit liability and that the transaction is approved by appropriate State authorities.

"It is understood that the absorption will not result in any change in the corporate existence of the Bank of Marysville which will affect its status as a member bank or in any amendment to its charter except possibly in connection with the increase of its capital stock. However, if you have not already done so, it is suggested that you obtain the advice of your counsel on these points. Please also furnish the Board with a copy of any opinion of your counsel in this connection together with a copy of any amendment to the charter of the member bank as a result of the transaction."

Approved.

Telegram dated May 5, 1934, approved by five members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Referring last paragraph Sargent's letter April 25. Although Board believes charge-offs or eliminations of nature specified in agreements executed by Transamerica Corporation and Transamerica Bank Holding Company in fulfillment of prescribed conditions of issuance of limited voting permits to them is advisable with respect to subsidiary nonmember banks intention of Board in ANCIGAR telegrams dated January 8, 1934, was that applicants should cause only subsidiary member banks to make such charge-offs or eliminations and Board believes that this intention is manifest in language of agreements inasmuch as words 'such subsidiary banks' refer to

"'its subsidiary member banks'. Board is accordingly of opinion that agreements were not made with respect to Bank of America (State) and that no extension of time with respect to that bank is necessary."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This will acknowledge receipt of your letter of April 17, 1934, and the inclosures therein contained amending the voting permit applications of Transamerica Corporation and Transamerica Bank Holding Company by adding the First National Bank in Reno, Reno, Nevada, as one of the subsidiary member banks with respect to which each of the voting permit applications is filed.

"Please notify the applicants that the Board has accepted the amendments and considers their respective voting permit applications amended accordingly."

Approved.

Letter to the governors of all Federal reserve banks, reading as follows:

"Following the conference between the Board and a Committee of the Governors' Conference on October 12, 1933, with regard to reimbursement of Federal Reserve banks for extraordinary expenses incurred during and immediately after the banking holiday, the question was taken up with the Treasury Department and on April 10, 1934 Mr. Wm. H. McReynolds, Administrative Assistant to the Secretary, wrote a letter to the Comptroller General of the United States, a copy of which is inclosed, in which he advised the Comptroller General it is the opinion of the Department that the vouchers of the Federal Reserve banks for reimbursement 'should include all items which represent reimbursement for out of pocket expenses incurred in connection with the actual licensing of member banks and making available to member banks proclamations, orders, regulations and interpretations thereof, after the issuance of the Proclamation of March 6, 1933, which bears the hour of signature as 1 A. M.' Mr. McReynolds also stated that, in accordance with the law and regulations, supplemental vouchers will be submitted to the Comptroller General's office, for consideration and direct settlement, covering the cost of transportation, etc., of gold and gold certificates, which were disallowed by the office of the Comptroller of the Currency; also that the vouchers

"returned by the Comptroller General will be reexamined, reapproved in accordance with Mr. McReynolds' letter, and resubmitted to the Claims Division of the Comptroller's office for further consideration as rapidly as possible.

"These vouchers are now being reexamined and resubmitted and, as soon as the Board receives advice of the action taken thereon by the Comptroller General, you will be advised thereof for your guidance in preparing claims for reimbursement for banking holiday expenses for which vouchers have not already been submitted.

"For your information, the Treasury Department has informally advised us that it has asked for the inclusion in the next deficiency bill of a provision which will permit the Department to reimburse the Federal Reserve banks for abrasion on light-weight gold absorbed by them since the banking holiday."

Approved.

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

"It has recently come to the attention of the Federal Reserve Board that the Attorney General of the United States has advised the office of the Comptroller of the Currency that, in the future, all transactions in which a national bank sells bonds at their market value, which is less than the figure at which they were carried on the books of the bank, and purchases with the proceeds realized thereby other bonds which are set up on the books of the bank at a figure in excess of their market value, should be reported to the Department of Justice for possible criminal prosecution, on the theory that the transactions may involve false entries made with the intent to deceive the bank examiners and the Comptroller and to defraud the public in general. The Attorney General advised further that, even though the transactions are regarded as an exchange, a report of such matters should be made to his Department, since the new bonds are entered on the books of the bank at an amount in excess of their known market value. The Attorney General requested that the Comptroller advise his examiners and the officials of the national banks generally of the views entertained by the Department of Justice with regard to transactions of this kind.

"In the circumstances, you are requested to advise the examiners for your Federal reserve bank and the officials of the State member banks in your district of the position taken by the Attorney General with regard to transactions of the kind described above and to report to the Board and the local United States Attorney in the usual manner all cases hereafter coming to your attention in which similar transactions have been consummated involving such State member banks. In this connection, the Attorney General has advised

"the Comptroller of the Currency that it is not necessary to make a search of the Comptroller's records for previous cases of this kind, and accordingly, it will not be necessary for you to make a search of the records of your bank for such cases."

Approved.

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

"With your letter of February 16, 1934, you forwarded a copy of a letter from Arthur Guy, Commissioner of Banks of the Commonwealth of Massachusetts, dated February 14, 1934, referring to the Gloucester Safe Deposit and Trust Company, Gloucester, Massachusetts. As Mr. Guy's letter raised a question as to the authority of State Supervisors to exercise supervision over State member banks in view of the President's Proclamation of March 6, 1933, declaring a holiday to be observed by all banking institutions in the United States, and of the subsequent Executive Orders and Proclamations with respect thereto, the letter was referred to the Secretary of the Treasury and there is now inclosed for your information a copy of the reply which the Secretary of the Treasury has sent to Mr. Guy."

Approved, together with a letter to the Federal reserve agents at all Federal reserve banks, inclosing a copy of the letter from the Secretary of the Treasury referred to in the letter to Mr. Curtiss.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. Case, Chairman of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of May 3 in regard to a letter dated April 30 sent by Mr. James L. West, Executive Director of 'Financial Affairs', to Mr. J. J. Martin, Executive Vice President, Commercial National Bank and Trust Company, New York, New York, with reference to salaries of executive officers of banks.

"The Board concurs with the view expressed in the last paragraph of your letter that no official action should be taken regarding this matter at this time."

Approved.

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

"The Board is in receipt of a copy of a letter dated March 23, 1934 addressed to Mr. Downs, Assistant Federal Reserve Agent of the Federal Reserve Bank of New York, and signed on behalf of the Bankers Trust Co., New York City, N. Y., by H. L. Simms, Comptroller. This letter refers to a letter dated March 13, 1934 from the Federal Reserve Board to you in which, on the basis of facts then available, the Board reached the tentative conclusion that three corporations were affiliates of the Bankers Trust Co., inasmuch as substantially all of the shares of stock of each was believed to be held by the Bankers Trust Co., as trustee. The Bankers Trust Co., now indicates its belief that the Board was in error in this tentative conclusion and requests a reconsideration of the matter.

"The letter signed by Mr. Simms explains that the three corporations were organized pursuant to Section 111 of the Decedent Estate Law of New York to take title to real estate acquired under the foreclosure of mortgages which had been held in various trusts of which the Bankers Trust Company was either sole or co-trustee. Under the definition of an affiliate in Section 2 (b) of The Banking Act of 1933 neither the nature of a corporation nor the reason for its existence is apposite to a determination of its existence as an affiliate, but the fact that a controlling interest in its stock is held by a corporation in trust is, of course, an important factor in determining the existence of an affiliation between the two corporations.

"The Board has recognized that in performing its duties as trustee a corporation is not acting in its ordinary corporate capacity, but the Board has heretofore ruled that ownership of stock in trust may carry with it control of the kind referred to in the statutory definition of an affiliate. The existence of such control is a question of fact to be determined in the light of all pertinent circumstances and principally in view of the way in which a decision is reached as to the voting of the stock.

"Please therefore request the Bankers Trust Co., to furnish a copy of each will or deed of trust under which the Bankers Trust Co., as sole or co-trustee, holds stock in one or more of the three corporations referred to. In the event that any instrument contains provisions clearly inapplicable to the determination here to be made such provisions may be omitted although the Board may find it necessary to request submission of the entire instrument at some future time. These instruments should be forwarded by you to the Board with any comments which you or counsel for your bank care to make and accompanied by an opinion of counsel for the Bankers Trust Co., as to whether each of the three corporations in question is or is not an affiliate of the Bankers Trust Co., within the meaning of section 2(b) of the Banking Act of 1933.

"It is doubted whether the control which is exercised in New York by the Supreme Court with respect to inter vivos deeds of trust and by the Surrogate's Court with respect to testamentary trusts is

"more than a general supervision, not at all inconsistent with the exercise of control by the trustee over shares of stock in the corpus of the trust. Nevertheless if the Bankers Trust Company is of a contrary belief, the opinion of its counsel should contain a full exposition of the nature and extent of judicial control with particular emphasis upon the extent to which such control affects the voting of stock held in trust."

Approved.

Letter dated May 4, 1934, approved by six members of the Board, to Honorable Frederic C. Walcott, United States Senator, reading as follows:

"This refers to your letter of April 10, 1934, inclosing drafts of proposed amendments to Section 19 of the Federal Reserve Act, to Section 12B, subsection (1), of that Act, and to Section 5197 of the Revised Statutes, and requesting an expression of opinion thereon.

"The proposed amendment to Section 19 of the Federal Reserve Act would extend the exception to the prohibition upon the payment of interest on deposits payable on demand to include any deposit payable only at an office of a member bank located 'in Alaska or the Panama Canal Zone or in a dependency or insular possession of the United States', and, in addition, would make the provisions of that section relating to the payment of interest on time and savings deposits inapplicable to deposits payable outside of the 'Continental United States'.

"It appears that the rates of interest customarily paid on deposits by foreign banking institutions are often in excess of the rates which may be lawfully paid by member banks of the Federal Reserve System on the same kinds of deposits, and, as a result thereof, branches of member banks operated in places outside of the United States may lose substantial amounts of deposits unless they are permitted to meet competition by paying interest at a rate equivalent to that currently paid by competing foreign banking institutions. In view of such circumstances, it is the opinion of the Board that an amendment to Section 19 of the Federal Reserve Act which would except deposits payable only at an office of a member bank located outside of the States of the United States and of the District of Columbia from the prohibition upon the payment of interest on deposits payable on demand and from the provisions relating to the payment of interest on time and savings deposits would be desirable.

"It should be noted, however, that the language which is used in the first paragraph of the draft of the proposed amendment to said Section 19 and which is designed to aid in the accomplishment of such purposes is not sufficiently broad to except from the prohibition

"upon the payment of interest on deposits payable on demand deposits payable only at an office of a member bank located in a territory of the United States other than Alaska, and that the term 'Continental United States', which appears in the second paragraph of the draft, is of doubtful meaning. It is the view of the Board that it would be desirable to use language of broader scope and of more precise significance than that suggested, and there is inclosed herewith a draft of a bill to amend Section 19 of the Federal Reserve Act which it is believed will obviate any doubt as to the exact scope of the amendment and will accomplish the purposes desired. There is also inclosed a draft of a revision of the last two paragraphs of Section 19 which shows the textual changes which would be made by the bill if enacted.

"Your attention is invited to the fact that the inflexibility of the provisions of the last two paragraphs of Section 19 in a number of instances has caused hardships to member banks and to their depositors and has given rise to numerous difficulties in administration. It is believed that it is desirable to vest in the Board specific authority to define the terms 'time deposits', 'savings deposits', 'deposits payable on demand', and 'trust funds' and to prescribe such rules and regulations as may be necessary to effectuate the purposes of these paragraphs and to prevent evasions thereof. Accordingly, the Board has incorporated in the draft of the bill submitted herewith amendments which it believes will accomplish the desired ends and will serve to further the purposes of the present law.

"You will observe that the Board has inserted in such draft a provision which would except from the prohibition upon the payment of interest on deposits payable on demand any deposit of trust funds with respect to which the payment of interest is required by State law. The laws of a number of States require the payment of interest on uninvested funds held in trust by banks, and, since trust funds awaiting investment as a practical matter must usually be available on demand and may not ordinarily be carried as time deposits, it is believed that the prohibition upon the payment of interest on deposits payable on demand should be made inapplicable to deposits of trust funds with respect to which the payment of interest is required by State law.

"The present law provides that the prohibition upon the payment of interest on deposits payable on demand shall not be construed to prohibit the payment of interest by a member bank in accordance with the terms of any certificate of deposit or other contract entered into in good faith and in force on June 16, 1933. The proposed bill provides in substance that such prohibition shall not be construed to apply to any payment made in accordance with the terms of a bona fide contract in force on the date on which the bank becomes subject to such provisions. The amendment would except from the prohibition upon the payment of interest on deposits payable on demand any payment made by a bank entering the System subsequent to the enactment

"of the Banking Act of 1933, provided such payment is made in accordance with the terms of a contract entered into in good faith and in force on the date the bank becomes a member of the System. Such an amendment is believed to be desirable.

"It is the view of the Board that the absolute prohibition against the payment of any time deposit before maturity should be relaxed so as to permit the payment of such deposits before maturity in exceptional circumstances and in order to avoid hardships. Accordingly, the proposed bill provides that no time deposit may be paid before its maturity 'except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Federal Reserve Board'.

"It should also be noted that the draft submitted herewith contains language which would make the provisions of the last two paragraphs of Section 19 applicable to every bank whose deposits are insured under the provisions of Section 12B of the Federal Reserve Act. It is the view of the Board that banks which are not members of the Federal Reserve System, but the deposits of which are insured under the provisions of said Section 12B, should be on the same basis as to the payment of deposits and of interest thereon as member banks of the Federal Reserve System. Under the existing law banks which are members of the Federal Reserve System are subject to certain limitations and restrictions with respect to the payment of deposits and of interest thereon which are not applicable to other banking institutions, notwithstanding that their deposits are insured under the provisions of said Section 12B, and such institutions are thereby afforded a competitive advantage over member banks. The proposed amendment would place all banks whose deposits are insured under Section 12B on a basis of equality in this respect.

"From a draft inclosed in your letter, it appears that it is also proposed to amend Section 5197 of the Revised Statutes so as to authorize a branch of a member bank located outside of the United States to charge a rate of interest equal to the 'rate allowed by the laws of the country, territory, province, dominion, insular possession, or other political subdivision where the branch is located'. For reasons similar to those set forth in the third paragraph of this letter, the Board believes that such an amendment is desirable. However, it is the view of the Board that the language proposed to be inserted in Section 5197 should be changed by striking out the words 'elsewhere than in the continental United States, excluding Alaska and the Panama Canal Zone', and inserting in lieu thereof the words 'outside of the States of the United States and the District of Columbia'. In addition, it is believed that there should be inserted after the word 'territory' and before the word 'province', the word 'dependency'.

"In regard to the suggested amendment to Section 12B, subsection (1), of the Federal Reserve Act, which would exclude in any determination of the insured deposit liabilities of any closed bank or of the total net deposit liabilities of any bank which is a holder

"of Class A stock of the Federal Deposit Insurance Corporation the amounts of all deposits of such bank which are not payable in currency of the United States and all deposits which are payable at any office thereof which is not located within one of the States of the United States or the District of Columbia, it is believed that such an amendment would be in harmony with the present purpose of the section to exclude deposits payable only at an office thereof located in a foreign country. In addition, it is not believed to be desirable that banks located in the United States should be required to contribute to the satisfaction of losses incurred by banks located outside of the United States.

"It is not clear, however, whether the proposed amendment would exclude, in any determination of the insured deposit liabilities of any closed bank or of the total net deposit liabilities of any bank which is a holder of Class A stock of the Federal Deposit Insurance Corporation or a member of the fund provided for in subsection (y) of Section 12B, only such deposits of a bank as may be payable at a branch office thereof located without the States of the United States and the District of Columbia, or whether it is of broader scope and would exclude deposits which may be payable at the main office of a bank which may be located outside of the States of the United States and the District of Columbia, as well as deposits payable only at a branch so situated. It is suggested, therefore, that such language be used as will eliminate any uncertainty in this regard and will indicate clearly that the amendment would exclude in any such determination deposits payable only at an office located outside of the States of the United States and the District of Columbia and would render ineligible for insurance under the provisions of Section 12B deposits of any bank so situated, whether or not a member of the Federal Reserve System. There is submitted herewith a draft of a revision of the seventh paragraph of subsection (1) of Section 12B of the Federal Reserve Act to accomplish such purposes. You will observe that such draft does not contain a provision excluding deposits which are 'not payable in currency of the United States'. It is the view of the Board that there is no good reason why such an exception should be made."

Approved.

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

"Reference is made to your letter of April 21, 1934, to Mr. Paulger, Chief, Division of Examinations, relative to the policy of the Federal Reserve Bank of Minneapolis in connection with examinations of State member banks.

"The Board notes that it is your practice to conduct examinations of State member banks jointly with representatives of the

"State banking departments whenever practicable but that regardless of whether such examinations are made jointly or independently, a complete and independent examination is made by your examiners and in no case are they to be considered as being credit investigations. Section 9 of the Federal Reserve Act as amended provides that the expenses of all examinations made by Federal reserve banks may, in the discretion of the Federal Reserve Board, be assessed against the banks examined and when so assessed shall be paid by the banks examined. In this connection the Board in its letter of July 26, 1930, X-6665, issued the following instructions:

"'If a State examination is unsatisfactory, and an investigation will not provide sufficient information upon which the agents may act intelligently, a complete examination should be made for which the member bank should be charged. It is realized, however, that in some instances unusual circumstances may exist which would warrant the Board's exercising the discretion vested in it under the recent amendment and waiving charges for specific examinations. Any case which, in the opinion of the Federal reserve agent, warrants such special consideration should be submitted to the Board in advance, with a complete statement of the reasons why it is considered desirable to have the examination charges waived by the Board. Examinations of State banks incident to their admission to membership in the System may be made without charge.'

"It will be appreciated if you will advise the Board whether charges for examinations made by the Federal Reserve Bank of Minneapolis of State member banks are being made in accordance with instructions contained in the Board's letter of July 26, 1930."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of April 13, 1934, concerning the application of The First National Bank of Newman Grove, Newman Grove, Nebraska, for the cancelation of 4 shares of Federal Reserve bank stock. It is noted that your records show that the 30 shares of stock now held by the subject bank were issued on September 23, 1915, on the basis of a capital of $45,000 and a surplus of $5,000, and that subsequently the bank reduced its capital to $25,000 and increased its surplus to $25,000, later reducing the surplus to $20,000.

"The records of the Board show that on May 1, 1914, The First National Bank of Newman Grove made an initial application for 27 shares of stock of the Federal Reserve Bank of Kansas City based upon

"$25,000 capital and $20,000 surplus, and that on September 23, 1915, the bank applied for 3 additional shares of Federal Reserve stock based upon an increase of $5,000 in surplus, which application was approved by the Board on October 29, 1915. Our records do not indicate any further change in the capital or surplus of the bank prior to a notice received from the office of the Comptroller of the Currency dated February 24, 1934, that the capital of the subject bank had been increased from $25,000 to $37,500 through the issuance of $12,500 preferred stock sold to the Reconstruction Finance Corporation. It is also understood that the records of the Comptroller's Office show no change in capital of the bank from the date of its organization until the issuance of the $12,500 preferred stock referred to above.

"In the circumstances, it is suggested that a revised application be submitted for the cancelation of the Federal Reserve bank stock which the subject bank desires to surrender."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. Arthur Larschan, Auditor, Trade Bank of New York, New York, reading as follows:

"This refers to your letter of January 26, 1934, in which you call attention to Section 3 of Regulation B issued by the Federal Deposit Insurance Corporation and inquire whether your bank, a member of the Federal Reserve System, may continue to pay interest on time deposits at the rate of 3 per cent per annum, compounded quarterly.

"Under the law the Federal Reserve Board is required to limit by regulation the rate of interest which may be paid by member banks on time deposits and is authorized to prescribe the rate which may be paid by such banks on time and savings deposits. Pursuant to the responsibility thus imposed upon it by the statute, the Federal Reserve Board, after a careful study of the subject, promulgated its Regulation Q, which contains the provision that no member bank shall pay interest on any time or savings deposit 'at a rate in excess of 3 per cent per annum, compounded semiannually, regardless of the basis upon which such interest may be computed'. Accordingly, no member bank of the Federal Reserve System, although it is a member of the Temporary Federal Deposit Insurance Fund, may pay interest on any time or savings deposit at a rate in excess of 3 per cent per annum, compounded semiannually; and, therefore, no such bank may pay interest compounded at lesser intervals than six months if the amount of interest so compounded exceeds the amount of interest which would be payable at a rate of 3 per cent per annum, compounded semiannually. You will observe that it is provided in

"Section 4 of Regulation C of the Federal Deposit Insurance Corporation that neither that regulation nor amended Regulation B of the Corporation is intended to make any requirement or impose any restriction as to member banks of the Federal Reserve System inconsistent with any regulation concerning interest payable by such member banks and that Regulation Q of the Federal Reserve Board is in no manner affected by such Regulation C or amended Regulation B of the Corporation.

"The provision of Regulation Q with respect to the compounding of interest has recently been again carefully considered by the Federal Reserve Board and it is the Board's conclusion that the requirement in Regulation Q that no member bank shall pay interest on any time or savings deposit 'at a rate in excess of 3 per cent per annum, compounded semiannually' should not be modified in any way at this time.

"The Federal Reserve Board has called to the attention of the Federal Deposit Insurance Corporation the fact that the regulations of the latter, which relate to nonmember banks of the Federal Reserve System whose deposits are insured under Section 12B of the Federal Reserve Act, differ from the regulations of the Federal Reserve Board, which are applicable to member banks, with respect to the minimum period for the compounding of interest at the rate of 3 per cent per annum."

Approved.

Letter to Mr. Robert Emerson Minnich, Editor, Federal Bank Service, Prentice-Hall, Inc., New York City, New York, reading as follows:

"This refers to your letter of March 17, 1934, regarding the question whether a member bank may make a loan to a savings depositor on the security of the depositor's savings pass book, and also whether, if such loan is made, the bank may continue to pay interest on the savings account represented by such pass book. You state that the same question has arisen in connection with time certificates of deposit.

"As you know, footnote 10 of the Federal Reserve Board's Regulation Q provides that the making of a loan to the owner of a savings deposit by a member bank for the purpose of evading any requirement of Section VI of the regulation will, to the extent of such loan, be deemed to be a payment of such deposit or waiver of notice with respect thereto in violation of such requirement. The question whether a loan made by a member bank to the owner of a savings deposit constitutes a violation of any requirement of this section depends upon whether the loan is made in good faith or for the purpose of evading such a requirement. It is not believed that any general rule can be prescribed to govern all cases, and each case should be determined on the basis of its own particular facts.

"It would not be practicable for the Federal Reserve Board to undertake to determine such questions as they may arise in individual cases, and the Board feels that the question whether any such transaction should be regarded as a payment of a savings deposit in violation of the requirements of the regulation is a matter to be considered by a member bank at the time such transaction is proposed and to be determined by such bank in the exercise of its best judgment and in the light of the provisions of the law and of the Board's regulation. However, if the circumstances in respect to any such transaction are such as to raise a question as to whether it constitutes a payment of a savings deposit or waiver of notice with respect thereto in violation of any requirement of Section VI of the regulation, the bank must be prepared to show clearly that such transaction was not in contravention of the provision of law in question.

"The same principles are applicable to the making of a loan by a member bank to the owner of a time deposit, in view of the provisions of footnote 7 of Regulation Q.

"What is said above with respect to loans to the owners of savings or time deposits is applicable whether or not interest is paid by a member bank on such deposits. With regard to savings deposits, however, it should be noted that, if it is the practice of a member bank to pay savings deposits without requiring notice of withdrawal, a loan by such bank to the owner of such a savings deposit would not involve an evasion of the requirements of Section VI of Regulation Q if the amount of the loan does not exceed the amount or percentage of such deposit which it is the practice of the bank in conformity with the provisions of said Section VI to pay without requiring notice."

Approved.

Letter to Mr. F. H. Meeker, President of The Unadilla National Bank, Unadilla, New York, reading as follows:

"This refers to your letter of December 19, 1933, presenting certain inquiries with respect to the form of a certificate of deposit issued by your bank, a copy of which you inclosed with your letter. Due to pressure of other urgent matters arising under the Banking Act of 1933, the Board regrets that it has not been possible to make an earlier reply to your letter.

"The form of certificate concerning which you inquire contains the clause 'This deposit is subject to thirty days' notice of withdrawal' and, accordingly, appears to be one with respect to which your bank reserves the right to require thirty days' notice before repayment but such notice is not required to be in writing and presumably is not actually required to be given in the usual case. It may not, therefore, be classified as a time certificate of deposit within the meaning of Regulation Q, a copy of which is inclosed

"herewith for your information, since, as you will observe from footnote 4 of the regulation, for the reasons there stated interest may not be paid on a certificate of deposit with respect to which the bank merely reserves the right to require notice of not less than thirty days.

"Furthermore, the deposit represented by the certificate in question may not be considered a savings deposit within the meaning of Regulation Q, because it does not provide that the depositor may be required by the bank to give notice in writing of an intended withdrawal not less than thirty days before such withdrawal and because it does not appear to constitute a 'pass book or other form of receipt' within the definition of a savings deposit contained in the regulation. The phrase 'other form of receipt' in the regulation 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.

"It is suggested, therefore, that your bank give consideration to the desirability of changing the form of certificates of deposit which it uses so as to bring them into conformity with the definition of time certificates of deposit contained in Regulation Q or, if it is desired to classify the funds represented by such certificates as savings deposits, that savings pass books of the usual type or other forms of receipt which comply with the intention of the regulation as discussed above be substituted therefor. You will observe from the definition of savings deposits in the regulation that such deposits must consist of funds accumulated for bona fide thrift purposes. For your information with respect to the forms of time certificates of deposit which comply with the requirements of the Board's Regulation Q there is inclosed herewith a copy of the Federal Reserve Bulletin for November, 1933, which contains on page 708 certificate forms which meet these requirements. There is also inclosed herewith a copy of the Federal Reserve Bulletin for December, 1933, containing a statement at page 768 with regard to the desirability of stamping or printing on certificates of deposit a provision to the effect that the rate of interest payable thereunder is subject to change by the bank to such extent as may be necessary to comply with requirements of the Federal Reserve Board made from time to time pursuant to the Federal Reserve Act.

"There is no objection to the inclusion in a time certificate of deposit of the clause 'interest at 3% per annum for even calendar months if left six months', if the certificate also conforms to the requirements of the regulation regarding time certificates of deposit. The other clauses mentioned in your letter and in its inclosures appear to refer to savings deposits and their use in connection with

"time certificates of deposit would seem inappropriate."

Approved.

Letter to Mr. C. O. Getter, Cashier of The First National Bank of Newville, Pennsylvania, reading as follows:

"This refers to your letter of April 20, 1934, regarding the payment of certificates of deposit which represent bona fide thrift accounts, and to your previous letters with respect to this matter. 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.

"You state that it would appear from regulations issued under the Banking Act of 1933 that deposits made in a bona fide thrift account represented by a savings account book may be withdrawn without giving thirty days' notice, while deposits in a bona fide thrift account represented by certificates of deposit cannot be withdrawn without giving notice of 30 days prior to such withdrawals. In such circumstances, you suggest the advisability of a ruling that deposits consisting of funds accumulated for bona fide thrift purposes, when represented by certificates of deposit as referred to above, may be withdrawn without notice so that depositors who accept such certificates may be treated the same as savings depositors who accept savings account books and so that banks issuing the certificates of deposit in question may be on an equal basis with banks which issue savings account books.

"One of the requirements of the definition of savings deposits contained in Section V of the Federal Reserve Board's 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. Your letter, therefore, raises the question whether a certificate of deposit of the kind described therein may constitute a 'form of receipt' within the meaning of this requirement so that deposits represented thereby may properly be regarded as savings deposits.

"Section 19 of the Federal Reserve Act as amended provides that no time deposit may be paid before 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 of 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 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 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.

"In view of the foregoing discussion, the Federal Reserve Board feels that deposits represented by ordinary certificates of deposit may not properly be classified as savings deposits within the meaning of Regulation Q so as to permit the payment of such deposits without requiring notice in accordance with the provisions of Section VI of that regulation, even though such certificates represent funds accumulated for bona fide thrift purposes."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. N. S. Calhoun, President of the Security National Bank, Greensboro, North Carolina, reading as follows:

"This refers to your letter of January 11, 1934, in which you request to be advised whether the fact that your bank is not issuing pass books in connection with its savings deposits is in any way a violation of the Federal Reserve Board's regulations. You state that, pending the adoption by the North Carolina Clearing House Association of rules of fair trade practice relating to savings accounts, your bank has delayed printing savings deposit pass books, and, in the meantime, has not issued pass books to its savings depositors, but has issued duplicate deposit tickets in lieu thereof.

"Without an opportunity to examine the form of duplicate deposit tickets in question the Federal Reserve Board is unable to advise you definitely whether the deposits represented thereby may properly be classified as savings deposits within the meaning of Regulation Q on which interest may lawfully be paid.

"However, for your information in this connection, you are advised that the Federal Reserve Board has expressed the view that the phrase 'other form of receipt' as used in the definition of savings deposits in 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. 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 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. The phrase 'other forms of receipt', as used in the definition of savings deposits 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.

"In view of the statements contained in your letter with regard to the expected issuance of savings pass books by your bank, it is assumed that the bank has now issued or will soon issue savings pass books covering all of its savings deposits so that there may no longer be any question as to the proper classification of such deposits."

Approved.

Letter dated May 4, 1934, approved by six members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of January 11, 1934, containing your inquiry No. 43 in regard to the applicability of the provisions of Section 32 of the Banking Act of 1933 to the service of directors and officers of a member bank as directors and officers of Lawyers Mortgage Investment Corporation of Boston and the Lawyers Title Insurance Company. In this connection, you inclose a copy of a letter from Mr. Bartlett Harwood of the Firm of Herrick, Smith, Donald and Farley, dated January 9, 1934, together with the papers inclosed in Mr. Harwood's letter.

"It appears from Mr. Harwood's letter that the Lawyers Title Insurance Company is engaged in insuring the title to real estate and the sufficiency of mortgages as collateral for mortgage notes. It also appears that this company is required to maintain a 'guaranty fund' invested in bonds of certain kinds, and that, except for buying and selling bonds of this character in connection with the maintenance of this fund, the company does not deal in securities in any way. Under the circumstances, it would appear that this company is not an organization of the kind referred to in Section 32.

"The information submitted would indicate that the Insured First Mortgage Certificates issued by the Lawyers Mortgage Investment Corporation are 'securities' within the meaning of Section 32, and that, therefore, such corporation should be regarded as a 'dealer in securities' within the meaning of that section. However, the Board does not feel that the information is sufficient to enable it to reach a definite conclusion in regard to this question. As you know, since the date of your letter, the Board has written its letter of April 16, 1934 (X-7866), relating to this matter and it is believed that the question here presented may be answered in accordance with the principles stated therein. If you should still desire the ruling of the Board with respect to this question, it is requested that you submit to the Board information relating thereto as outlined in the Board's letter, together with your comments and the opinion of counsel for your bank."

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to Mr. Theodore F. Whitmarsh, 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

"at the same time as director of Irving Trust Company and as president and director of Ridgely Trading Corporation of Delaware, both of New York, New York.

"It appears that the corporation was organized to facilitate the administration of certain trusts for your relatives, most of whom are abroad; that the corporation is engaged in the management of securities which it holds, selling or reinvesting as occasion requires and in collecting the income from the securities and turning it over to the trusts for the beneficiaries; that you are not a stockholder of the corporation and have no financial interest in its operation; that during 1933 the sales of securities represented less than 3% of the total investment account, and profits from the sales of securities represented 2 1/3% of total income for the year and only .08% of the total investment account of the corporation; and that the corporation has never participated in the underwriting or the issue of securities of other corporations.

"In view of the facts disclosed in your application it appears that Ridgely Trading Corporation of Delaware is not 'engaged primarily in the business of purchasing, selling or negotiating securities', within the meaning of Section 32 of the Banking Act of 1933, but, rather, in the investment of its funds. Therefore, no permit is required under the provisions of that section covering your service as president and director of that corporation and as director of Irving Trust Company."

Approved.

Letters dated May 4, 1934, approved by six members of the Board, to the following applicants for permits under section 32 of the Banking Act of 1933; each letter stating that it appears that the relationship covered by the application is within the class which section 32 was designed to terminate, and that, accordingly, the Board is unable to find that it would not be incompatible with the public interest as declared by the Congress to grant the application, although, in the event the applicant desires to submit further facts or arguments in support of the application, the Board is prepared to give them careful consideration:

Mr. Arthur H. Almstedt, for permission to serve at the same time as a director of the Citizens Union National Bank and as a member of the firm of Almstedt Brothers, both of Louisville, Kentucky.

Mr. Isaac Hilliard, for permission to serve at the same time as a director of the Citizens Union National Bank and as a member of the firm of J. J. B. Hilliard & Son, both of Louisville, Kentucky.

Approved.

Letters dated May 5, 1934, approved by five members of the Board, to the following applicants for permits under section 32 of the Banking Act of 1933; each letter stating that it appears that the relationship covered by the application is within the class which section 32 was designed to terminate, and that, accordingly, the Board is unable to find that it would not be incompatible with the public interest as declared by the Congress to grant the application, although, in the event the applicant desires to submit further facts or arguments in support of the application, the Board is prepared to give them careful consideration:

Mr. Sidney J. Weinberg, for permission to serve at the same time as a director of the Manufacturers Trust Company and as a partner of Goldman, Sachs & Co., both of New York, New York.

Mr. J. S. Rippel, for permission to serve at the same time as Chairman of the Board and director of the Merchants and Newark Trust Company, Newark, New Jersey, and as Chairman of the Board of Directors and director of J. S. Rippel & Co., Newark, New Jersey.

Approved.

Letters to the following applicants for permits under section 32 of the Banking Act of 1933; each letter stating that it appears that the relationship covered by the application is within the class which section 32 was designed to terminate, and that, accordingly, the Board is unable to find that it would not be incompatible with the public interest as declared by the Congress to grant the application, although, in the event

the applicant desires to submit further facts or arguments in support of the application, the Board is prepared to give them careful consideration:

Mr. Charles A. Collins, for permission to serve at the same time as a director of The Central National Bank of Lynn, Lynn, Massachusetts, and as an officer and senior partner of Collins Breed & Company, Boston, Massachusetts.

Mr. G. Peabody Gardner, Jr., for permission to serve at the same time as a director of the Boulevard Trust Company of Brookline, Brookline, Massachusetts, and as partner of the firm of Jackson & Curtis, Boston, Massachusetts.

Mr. Harold C. Payson, for permission to serve at the same time as a director of the First National Bank of Lewiston, Maine, and as a partner of H. M. Payson & Co., Portland, Maine.

Mr. Frank D. Stranahan, for permission to serve at the same time as a director of The Commerce Guardian Bank, and as a director and officer of Stranahan, Harris & Company, Incorporated, both of Toledo, Ohio.

Mr. Robert A. Stranahan, for permission to serve at the same time as a director of The Toledo Trust Company and as an officer and director of Stranahan, Harris & Company, Inc., both of Toledo, Ohio.

Mr. R. H. Tinsman, for permission to serve at the same time as a director of the Inter-State National Bank, Kansas City, Missouri, and as an officer of Prescott, Wright, Snider Company, Kansas City, Missouri.

Approved.

Letter dated May 5, 1934, approved by five members of the Board, to an applicant for a permit under the Clayton Act, advising of approval of his application as follows:

Mr. E. R. Jolly, for permission to serve at the same time as a director and officer of The Bank of Haileyville, Haileyville, Oklahoma, and as a director of The National Bank of McAlester, McAlester, Oklahoma.

Approved.

There was then presented the following application for original stock of a Federal reserve bank:

Application for ORIGINAL Stock: District No. 11.	Shares	
Buchel National Bank in Cuero, Cuero, Texas	66	66

Approved.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

E. R. Black
Governor.